This Year Next Year

WORLDWIDE MEDIA AND MARKETING FORECASTS

June 2018

groupm

This Year Next Year

WORLDWIDE MEDIA AND MARKETING FORECASTS

JUNE 2018

FOR THE FULL 70-COUNTRY FORECAST AND APPENDIX :

ALL WPP EMPLOYEES:
link to inside.wpp.com/marketing

GROUPM CLIENTS:
please speak with your client account director for the full data file or contact Adam Smith (adam.smith@groupm.com)

EVERYONE ELSE:
link to our sales portal groupmpublications.com
or contact Adam Smith (adam.smith@groupm.com)

GroupM
498 7th Avenue
New York, NY 10018
U.S.

CONTENTS

Introduction

2017 advertising investment growth came in at 3.5%, ahead of our 3.1% December forecast. Our headline 4.5% for 2018 is fractionally raised, and we make a first prediction for 2019 of 3.9%.

The outlook for the global economy remains on balance benign, qualified by some permutation of protectionism, equity correction, excessive debt, dollar appreciation and higher inflation. We use the IMF World Economic Outlook, which in April upgraded its aggregate nominal GDP forecast for our country set for 2018 from 5.6% to 6.1%, and for 2019 from 5.6% to 5.9%. Its picture of the global economy and ours of ad investment both therefore depict a shallow peak in 2018.

Strong growth increases demand for commodities, capital and labor. Led by oil, HSBC's commodity index recorded an overall gain of 10% in January–April. HSBC has real worldwide investment growth moderate but stable at 6.6% in 2018 and again in 2019, and real wage growth of 4.5% and 4.4%, respectively.

Whenever the end arrives, this will have been a slow-growth recovery. Low inflation has robbed advertisers of pricing power and diverted brand investment into performance. Despite high employment, wage growth worldwide remains moderate. Global consumer price inflation last peaked at 5.1% as long ago as 2011 and has remained around 3% since 2014. The IMF predicts no breakout in the five years it forecasts.

The main change in these forecasts is to raise digital's share of ad investment and lower traditional TV's. The line between these two media types grows ever less distinct, so the caveat bears repeating that nearly everywhere, "digital" includes ad revenue flowing to the IP-delivered services of broadcast TV brands. This amount is rarely itemized, but surely growing. Our digital share for 2018 rises from 36% in our December forecast to 39% this time. This is the combined effect of upward revisions in the USA, Asia-Pacific, and the MENA region. At 39% for 2018, worldwide digital eclipses TV at 37% for the first time. In 2019 we have the gap growing to 41% versus 36%. But it is not really "versus": the two media are symbiotic.

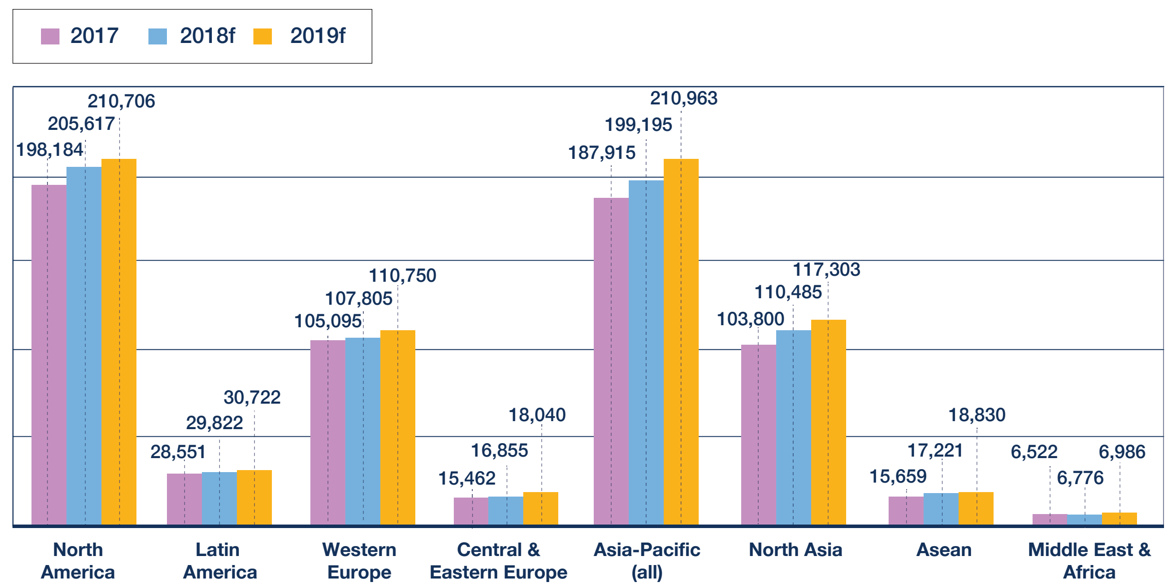
Digital ad revenue is reported either as a whole, or by type (principally display and search), but never discriminates between large and small media owners or the long and short tail or between agency and non-agency bought. One can raise the same objection for all media reporting, but digital is unique in its long tail and in being dominated by global vendors. "One size fits all" is not much of a manifesto for the largest single medium and source of nearly all growth. Another is limit is categorization (Auto, Food etc.). Digital is mostly walled gardens. In consequence, a country is doing well to have 20% of its digital ad investment categorized. Large advertisers' appetite for this information will grow as digital does, but it may be wiser for them to prioritize their users, brands and discovering their own actionable truths rather than worrying about share of voice.

We predicted traditional TV would be almost flat in 2017. It fell 1%, but we think it will accelerate to 2% in the sports-assisted "mini-quadrennial" of 2018. Its young audience, never abundant, is growing scarcer on the main screen. Several countries report double-digit CPM inflation for these audience groups, but this rarely seems to translate into absolute revenue or share growth. Other ambiguities are that oligopolistic TV markets can still be lethally competitive, TV growth can be present without conspicuous CPG support, and TV share does not correlate with TV growth.

Digital grew 15% in 2017 compared to the 12% we forecast. We expect some error given our limited exposure to digital's big host of small advertisers, but among the larger advertisers we do see, we probably underestimated the "Facebook surge", which in our estimation helped double the Facebook companies' share of their addressable market in 2016–2017.

Digital price inflation also played its part. Programmatic does not necessarily mean cheaper, especially when there is enhanced emphasis on, say, the bottom of funnel, or on safer or more viewable inventory. Going programmatic-first also excludes inventory that does not comply with standards required for automation.

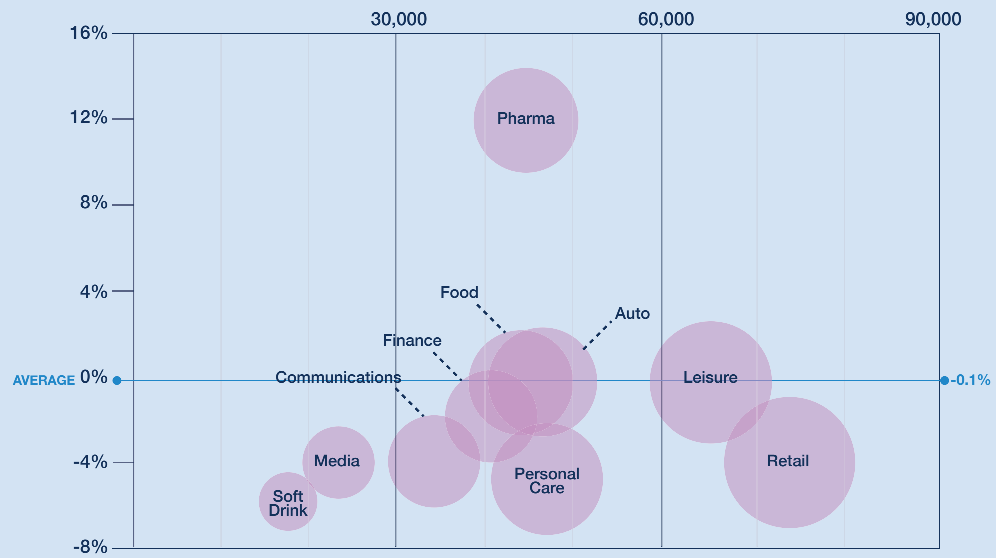
Media summary



	2011	2012	2013	2014	2015	2016	2017	2018f	2019f
North America	165,039	171,331	176,488	181,523	185,613	194,453	198,184	205,617	210,706
YOY%	3.2	3.8	3.0	2.9	2.3	4.8	1.9	3.8	2.5
Latin America	20,790	22,392	26,391	28,117	29,956	26,988	28,551	29,822	30,722
YOY%	11.3	7.7	17.9	6.5	6.5	-9.9	5.8	4.5	3.0
Western Europe	97,497	94,466	93,220	95,797	98,770	102,084	105,095	107,805	110,750
YOY%	1.2	-3.1	-1.3	2.8	3.1	3.4	2.9	2.6	2.7
Central & Eastern Europe	11,418	12,025	12,445	12,764	12,828	13,979	15,462	16,855	18,040
YOY%	9.6	5.3	3.5	2.6	0.5	9.0	10.6	9.0	7.0
Asia-Pacific (all)	130,959	141,077	150,870	159,764	169,400	178,978	187,915	199,195	210,963
YOY%	8.4	7.7	6.9	5.9	6.0	5.7	5.0	6.0	5.9
North Asia	*67,344*	*74,525*	*81,331*	*86,773*	*92,592*	*98,169*	*103,800*	*110,485*	*117,303*
YOY%	*15.5*	*10.7*	*9.1*	*6.7*	*6.7*	*6.0*	*5.7*	*6.4*	*6.2*
Asean	*9,609*	*10,630*	*11,724*	*12,437*	*13,783*	*14,718*	*15,659*	*17,221*	*18,830*
YOY%	*10.0*	*10.6*	*10.3*	*6.1*	*10.8*	*6.8*	*6.4*	*10.0*	*9.3*
Middle East & Africa	8,326	9,234	9,535	8,414	8,616	7,147	6,522	6,776	6,986
YOY%	10.6	10.9	3.3	-11.8	2.4	-17.0	-8.7	3.9	3.1
World	434,029	450,525	468,950	486,379	505,184	523,630	541,728	566,069	588,167
YOY%	4.9	3.8	4.1	3.7	3.9	3.7	3.5	4.5	3.9

Introduction (cont.)

2016 Categories YOY% Change and USDmm



Writing before GDPR's arrival, commentary on the subject from our European correspondents in this sweep is sparse and ambivalent, illustrating the uncertainty in what seems likely to be more an evolution than an event. Seventy-six percent of Netherlands publishers predict minimal effect on revenues. Ireland thinks it will constrain 2018 investment but bounce in 2019. Austria expects impaired but still positive growth. Sweden expects turbulence and worries it will consolidate duopoly power. Poland sees a headwind to growth and advertisers seeking refuge in certain safer formats.

We maintain our forecast that out-of-home will command 6.3% of worldwide ad investment in 2018, and now see this sustained in 2019. This is the highest share we have recorded since our series began in 1999. Digital OOH is the reason. As Australia observes, "combining location data with purchase, social media and viewing behaviour is a powerful opportunity for marketers"; we also note that this share growth is being achieved despite the large increase in supply that digitization creates. Upward revisions to out-of-home's share could easily follow if the medium can automate faster, or if more advertisers seek safe, extensive reach.

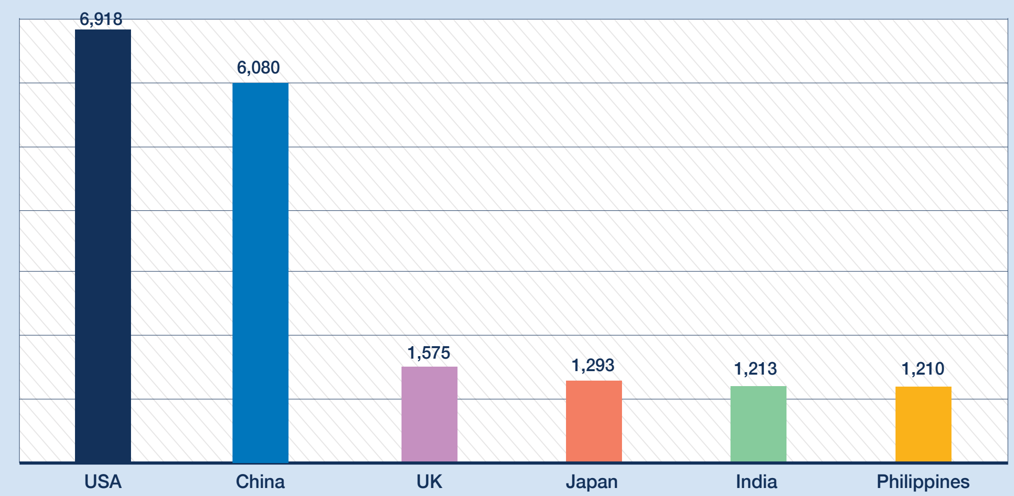
There is, alas, no change in print's trajectory, with our forecast of the newspapers' and magazines' combined 2018 share revised from 14% to 13%, with 12% forecast for 2019. Five of our local offices spontaneously referred to media owner consolidation, a theme we should expect to recur. Like all traditional media, print ambitions generally converge on successful digitization and better measurement. They have a powerful message to substantiate: High-quality context is safe, it sells, and any premium more than pays for itself. When an advertiser defines its desired context properly, it should be crystal clear when print is required.

Top contributors 2018

We predict 2018 will generate $24 billion in net new advertising investment, the best annual increment since the $26 billion bounceback in 2010. We think these six countries will provide 75% of the expected

Introduction (cont.)

Top Contributors 2018 USDmm



growth. China remains number two, with 6.8% ad growth: 'the fifth successive year of its single-digit "new normal."' Our modelled further-out forecast has this rate easing to 5% in 2023. China's $6 billion growth in 2018 still exceeds all-Europe's $4 billion. India remains hopeful of double-digit growth in 2018 and 2019, with caveats around commodity price rises and trade obstacles. India's prospective dollar growth this year is of the same order as Russia's and Brazil's combined.

The Philippines enters our table as the last of the billion-dollar contributors. It is by far the largest of the ASEAN ad economies, with forecast per-capita ad investment of $60 this year, double the regional average. The world average is $93. The Philippines is undercounted, as digital is still not measured there. Digital accounts for 20% of ASEAN advertising investment where it is measured.

The UK remains in the table against expectations of Brexit calamity and bouts of consumer fatigue, propelled by colossal digitization that will now reach 60% of recorded ad investment in 2019 on our numbers.

Consumption and investment

Real global wage growth was 4% in 2017, and is accelerating slightly, possibly to a peak in 2018, but apparently not sufficient to push real consumer spending above its 3% trend, even in the tax-cut-assisted USA. Forecast 2018 wage growth polarizes at 7% in developing markets and 2% in the developed. The most vigorous are nearly all in Asia, with 2018 real consumer expenditure growth in China of 8%, India 7%, Indonesia 5%, Malaysia 6% and the Philippines 6%. Europe's only member of this club is Turkey, at 6%.

Worldwide investment spending grew a real 5% in 2017, with developed countries marking what may prove a top-of-cycle 4%, but China leading Asia-Pacific up from 6% last year to an expected 7% this year. Latin America has been running its investments down since 2014, but Argentina is leading a regional recovery forecast to reach 4% in 2018. Global commodities firming 10% in the year to April supports this, with hawkish US monetary and trade policy perhaps the main threats.

Introduction (cont.)

Long-term ad forecasts

	2019f	2020f	2021f	2022f	2023f
North America	210,706	218,842	226,828	234,192	241,640
YOY%	2.5	3.9	3.6	3.2	3.2
Latin America	30,722	32,869	35,212	37,694	40,294
YOY%	3.0	7.0	7.1	7.0	6.9
Western Europe	110,750	113,742	117,484	120,344	122,947
YOY%	2.7	2.7	3.3	2.4	2.2
Central & Eastern Europe	18,040	19,182	20,345	21,574	22,838
YOY%	7.0	6.3	6.1	6.0	5.9
Asia-Pacific (all)	210,963	226,826	240,037	252,682	264,845
YOY%	5.9	7.5	5.8	5.3	4.8
North Asia	*117,303*	*127,239*	*134,787*	*141,803*	*148,355*
YOY%	*6.2*	*8.5*	*5.9*	*5.2*	*4.6*
Asean	*18,830*	*21,246*	*23,411*	*25,627*	*27,864*
YOY%	*9.3*	*12.8*	*10.2*	*9.5*	*8.7*
Middle East & Africa	6,986	7,276	7,597	7,939	8,291
YOY%	3.1	4.1	4.4	4.5	4.4
World	588,167	618,736	647,503	674,425	700,855
YOY%	3.9	5.2	4.6	4.2	3.9

GroupM's long-term forecast model has one principal independent variable: the IMF's calculation of each country's share of global GDP at PPP.

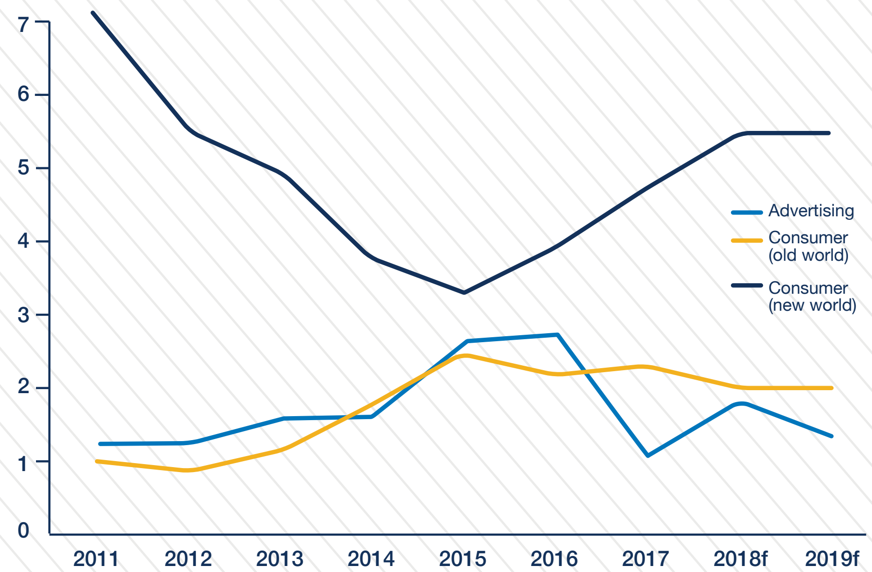
This is intended merely for scenario planning. GDP forecasts know nothing of structural changes in media advertising, so neither can this model.

THIS YEAR NEXT YEAR

Introduction (cont.)

Consumer spending

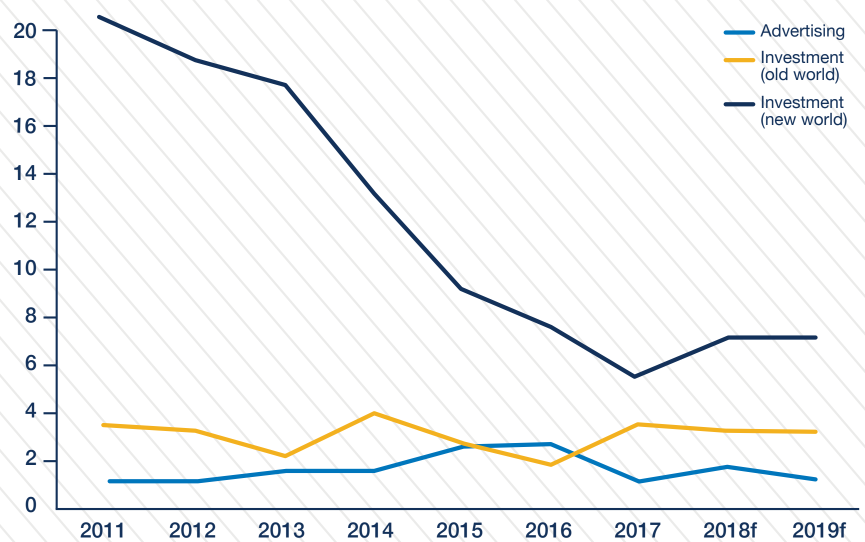
YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

Investment

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

Brazil

Political turbulence persists, and the expectation is the economy will only truly recover after the October 2018 presidential and general elections.

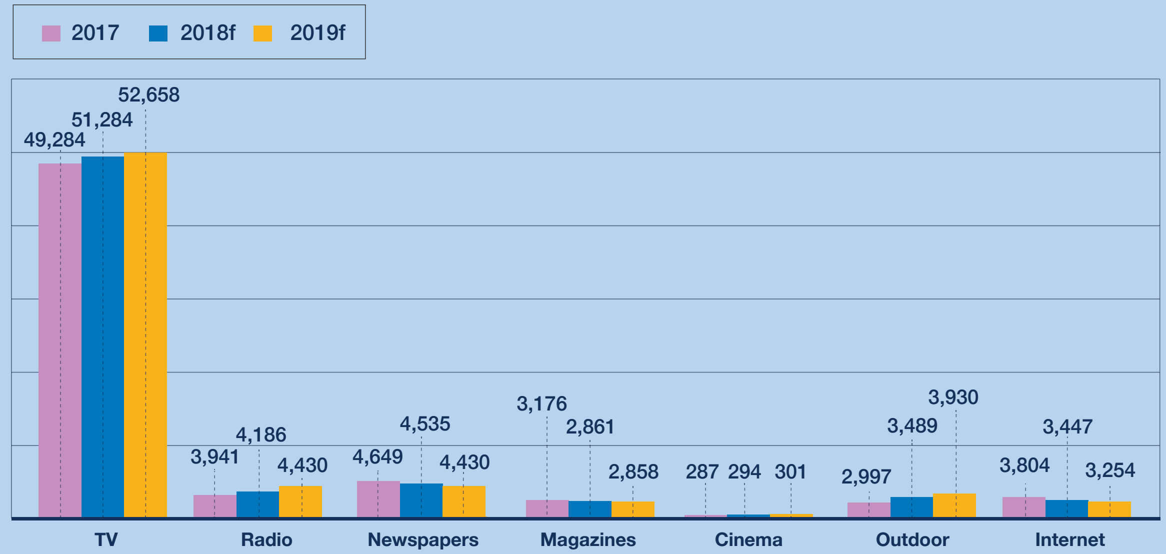
2018 brings the election and the World Cup. Given Russia is hosting this, we cannot expect such a bump as we had for Brazil in 2014. Our political uncertainty also constrains expectations for GDP. The IMF currently forecasts 6% nominal for 2018 and 7% for 2019. Our ad forecasts remain conservative and well below this. Online advertising investment in Brazil remains grossly underreported.

It's no news that media consumption has changed enormously in recent years. Brazil has lagged a bit, but now seems to be catching up. Internet reach for Gen Z and Millennials (both at 91%) now exceeds free-to-air TV consumption (both at 87%). At the same time, Google and Facebook have shown more commercial strength and more aggressive offers. In fact, Google is already the second largest media player in Brazil, behind the no-longer-almighty TV Globo.

E-commerce stands at BRL 50 billion (USD 14 billion) and is growing at about twice the rate of the wider economy. In April it was reported Amazon was exploring with airline Azul a big expansion in direct-to-consumer delivery, presumably to augment or replace its present third-party arrangements. The e-commerce market is already hotly competed between Amazon and MercadoLibre.

The rate of recovery should grow for a third successive year in 2018, even though the economy is the same size as it was in 2012 in real terms. Reform impetus seems to have slowed with the impending October presidential election, but the budget deficit has improved somewhat, from 8% last year to 5% predicted for 2018. Other positive indicators are consumer spending growth turning positive in 2017 and improving in 2018, real investment spending predicted to rise 5% in 2018 after four successive years of shrinking, a marked pickup in exports this year, and unemployment tracking back to single digits. Progress depends entirely on the strength and disposition of the next administration.

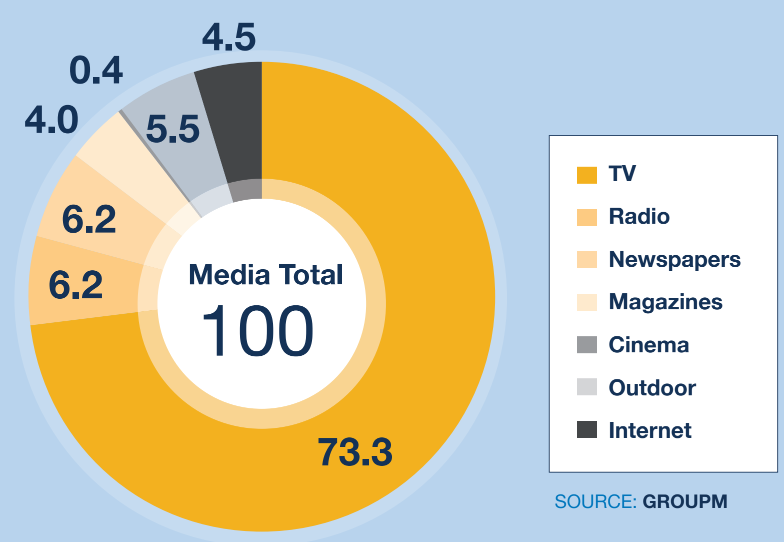
Media BRLmm



Media Total	BRL MM			USD MM		
	68,139MM	70,097MM	71,861MM	19,706MM	20,272MM	20,782MM

SOURCE: GROUPM

2019f % Shares of media



SOURCE: GROUPM

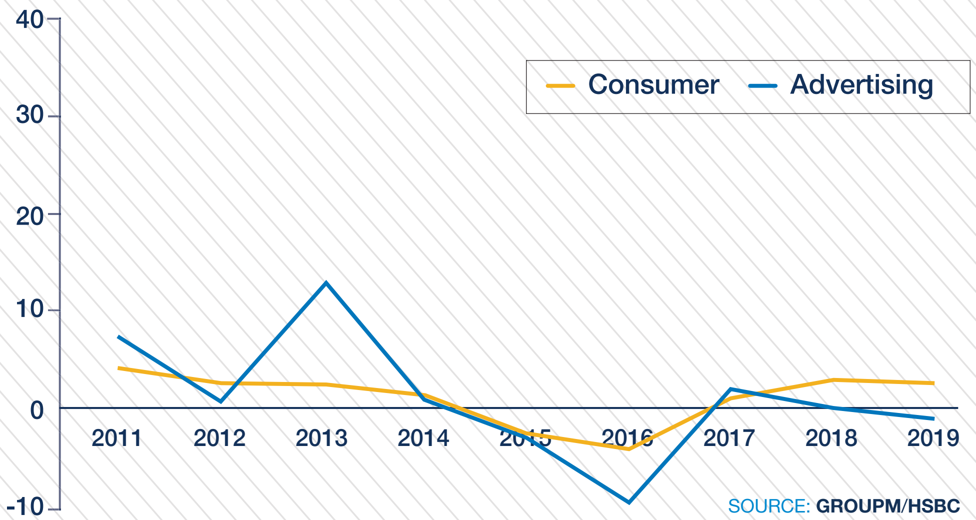
Brazil

THIS YEAR NEXT YEAR

Brazil

Consumer spending

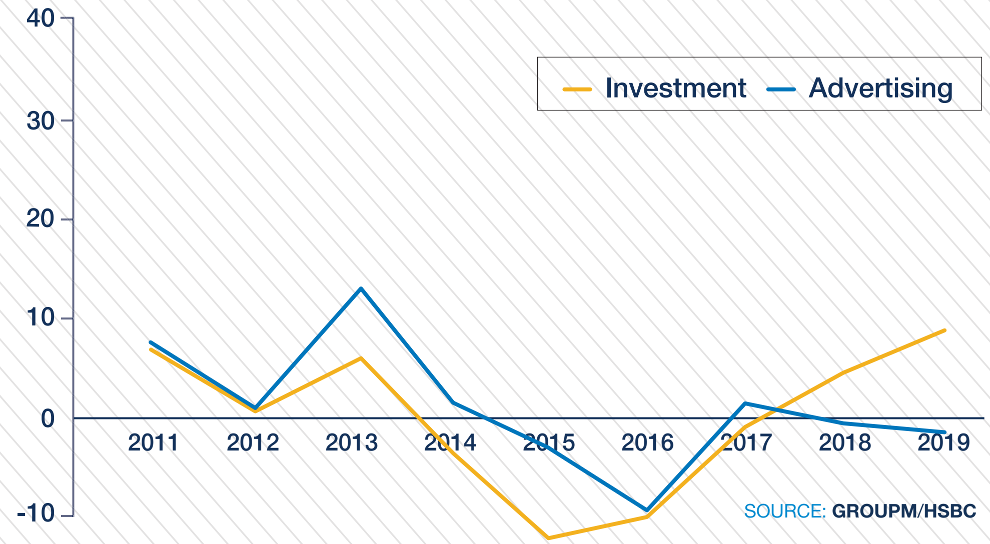
YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

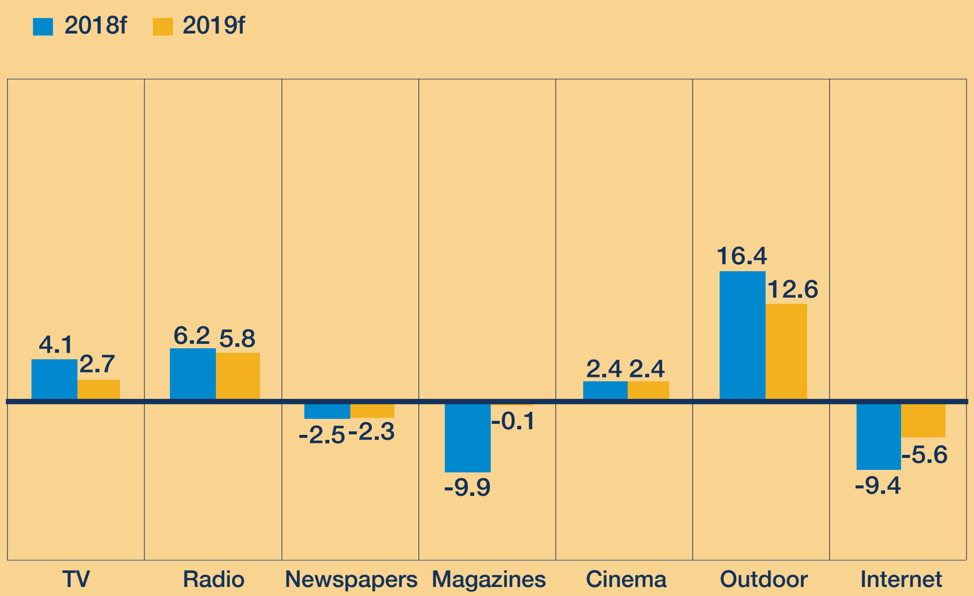
Investment

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

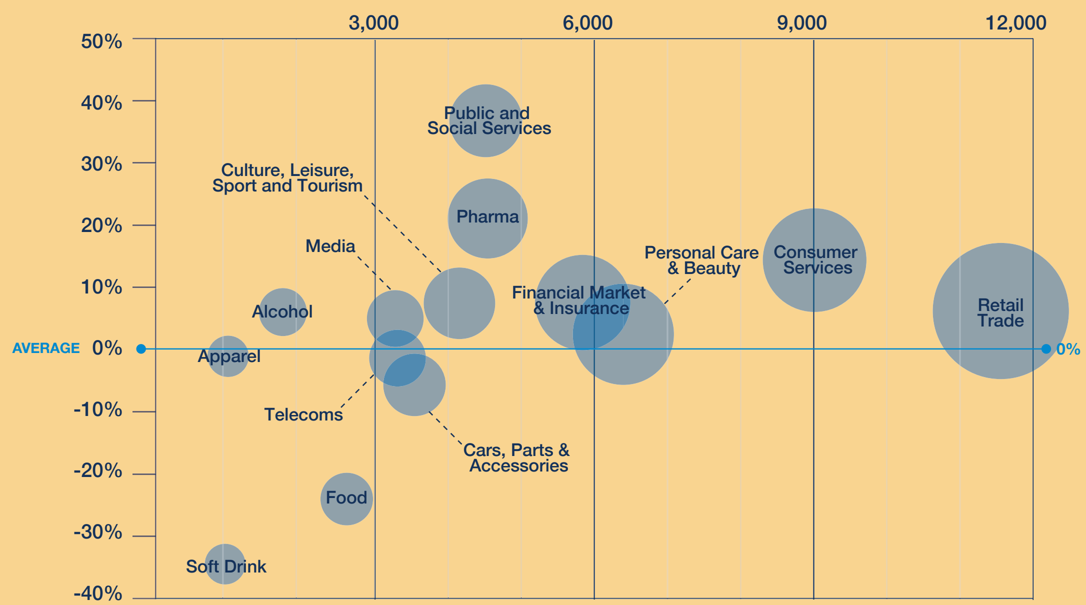
YOY% Change



Media Total YOY% change	2.9	2.5

SOURCE: GROUPM

2017 Categories YOY% Change and BRLmm



- Categories: Ibope Monitor (after discounts)
- Historic media revenue: Ibope Monitor
- Internet comprises display and search but is undercounted.
- Agency commission: in, typically 20%
- Discounts: after (ca. 50% from rate card)
- Newspaper classified: in
- Internet classified: out
- Ibope (Kantar) "Digital Display" covers only the ads served in the 100 desktop sites in its viewing rank, and does not monitor Google, Facebook, mobile, or automated buys targeting specific audiences.
- "Digital Display" as reported is therefore a diminishing market.

Canada

Canada is an open economy, with trade volumes equivalent to nearly two-thirds of GDP. The state of the global economy is thus a big influence. Along with stronger business and consumer confidence, global trade and investment growth have picked up. Global trade is forecasted to reach 3.2% in 2018 according to the World Trade Organization, and the IMF predicts Canada's nominal GDP to grow around 4% annually in our forecast period. Driven by digital, we have ad investment accelerating ahead of this for the first time since 2015.

Television audiences continue to decline as more people switch to digital formats. Canadians are watching two hours less each week versus five years ago. Young millennials (18–24) are watching on average six hours less than five years ago. The result: Television inflation continues to increase because as audiences continue to decline, advertiser demand has not, causing a supply issue.

Broadcasters are bringing forward much needed data-enhanced television offerings, but technical standardization across all available TV inventory is essential in order for it to succeed.

Netflix remains the primary source for OTT TV content. More than half of anglophone households subscribe.

Daily time spent with radio is projected to fall another 2.1% in 2018 to 90 minutes. The streaming service Spotify continues to grow and innovate, recently launching the self-service Ad Studio, allowing marketers to upload full audio scripts to be voiced by Spotify. Advertisers can target consumers based on music preferences in addition to age, sex and location.

The average time spent per day with print is estimated to fall to just under 22 minutes in 2018, making it even more important for publishers to evolve their digital product.

Digital ad spending is projected to hit CAD 7.2 billion in 2018 and will account for 43% of total media time spent (adults 18+). Mobile accounted for 28% of all media time in 2017 and grows every year. We expect mobile ad spending to reach CAD 5.3 billion in 2018, and claim a 74% share of total programmatic investments.

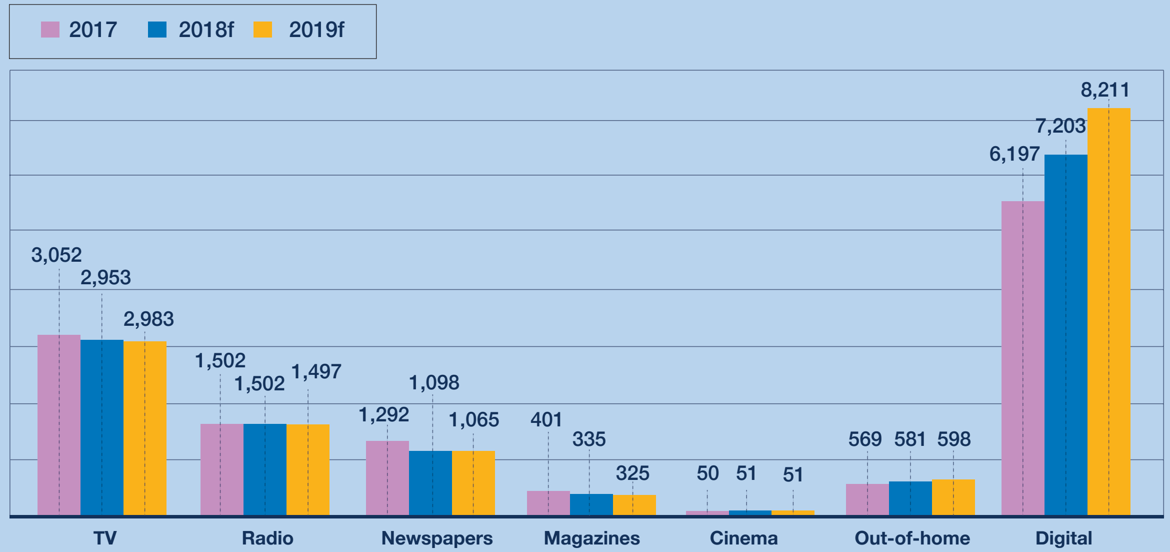
We project video ad investment to rise 15% in 2018 and its programmatic element to grow even faster, at 20%.

Search is the leading form of digital ad investment and should remain so in 2018. Google continues to dominate, but Amazon search launched in late 2017 and has started to build momentum in Canada.

Social media usage in Canada is near capacity, with low single-digit growth rates expected each year through 2021. In 2018, the number of social network users in Canada will reach 21.8 million, or 59% of the population.

2017's 3% real/5% nominal GDP growth was the highest in the G7, but this is likely to moderate as indebted households respond to tighter money and mortgage lending. We should expect consumer spending to track lower, but whether investment spending rises to offset this is another matter. Trade is equivalent to 64% of GDP, so Trump-style protectionism may weigh on investor sentiment. Net trade was a drag on the economy in 2017 and may remain so in 2018, but lower demand for imports and a longer-lived recovery in Asia would create conditions for trade to become a tailwind from 2019.

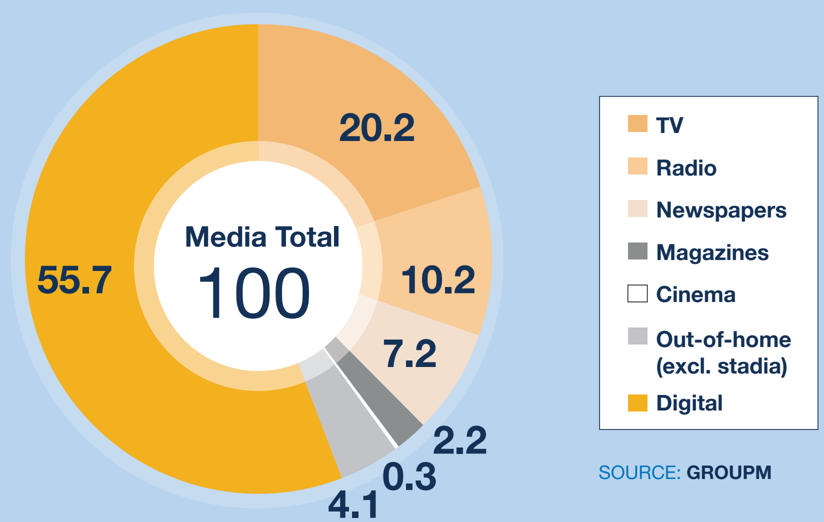
Media CADmm



	CAD MM			USD MM		
Media Total	13,062MM	13,722MM	14,730MM	10,182MM	10,697MM	11,483MM

SOURCE: GROUPM

2019f % Shares of media

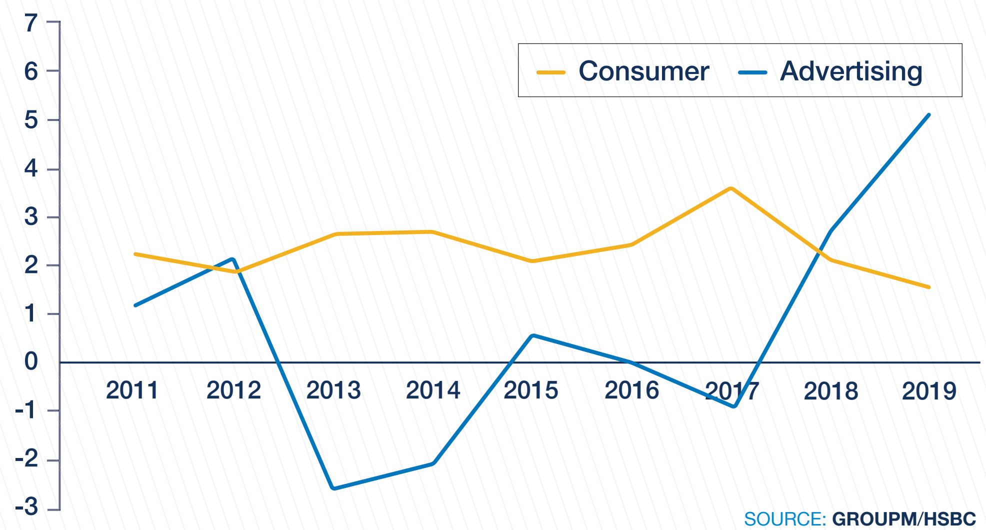


SOURCE: GROUPM

Canada

Consumer spending

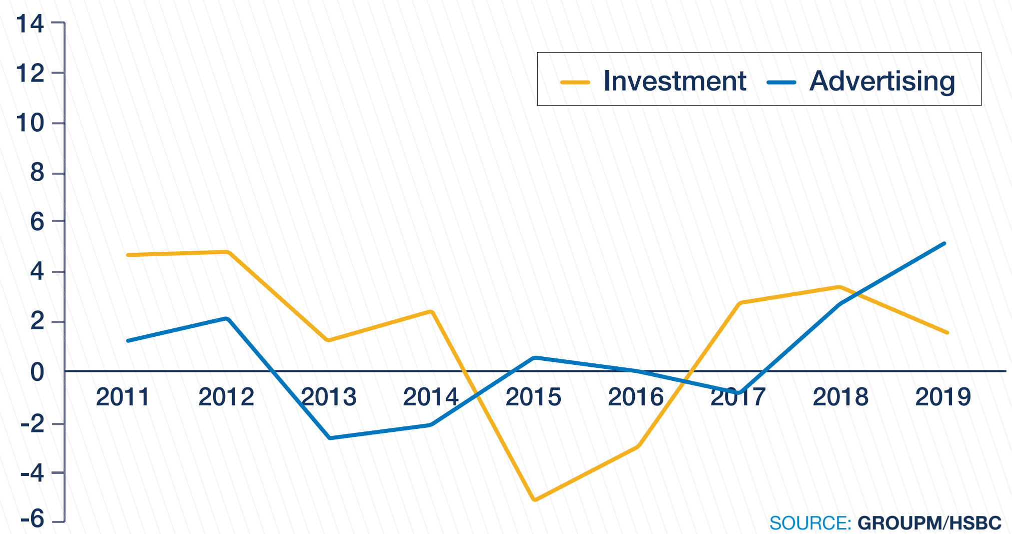
YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

Investment

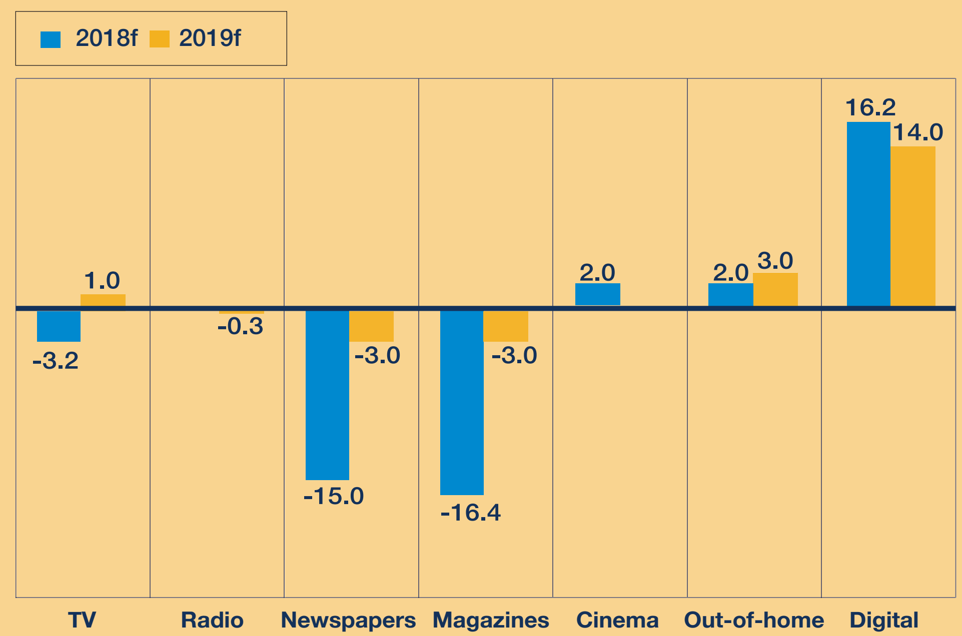
YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

Canada

YOY% Change



Media Total YOY% change	5.1	7.3

SOURCE: GROUPM

- Categories & advertisers: Market Track – Ad Dynamics (includes TV, radio, newspapers, magazines and OOH, but not internet)
- Historic media revenue: TV and radio, CRTC; newspapers, CAN; magazines, Magazines Canada; OOH, GroupM based on Nielsen/Market Track; Digital, IAB. Others: GroupM
- Agency commission: out
- Discounts from rate card: after
- Newspaper classified: in
- Internet classified: in
- Digital comprises display, classified, search, email and mobile, including advertising that appears on desktop and laptop computers as well as mobile phones, tablets and other internet-connected devices

China

Total retail sales of consumer goods maintained double-digit growth of 10.2% in 2017, and China's Consumer Confidence Index remained at a historical high of 114 in the second half, representing a six-point improvement relative to Q4 2016. Reform and structural management helped nominal GDP pick up from 6.7% in 2016 to 8.9% in 2017. The IMF's raised expectation is for the economy to sustain this rate of growth for the forecast period.

Given the positive macroeconomy outlook, we expect steady growth of media investment in the order of 6.8% in 2018 and 6.6% in 2019.

Although the overall media market keeps growing, performance in different channels becomes further diversified.

Internet advertising is still the major driver for growth, and is likely to surpass 60% of measured advertising investment in 2018. Growth is, however, levelling off in technical penetration and in audience, which we think will be reflected in the advertising growth trajectory, which we forecast at 14.4% in 2018 and 12.6% in 2019.

Spending on TV-slot commercials will continue falling, but we forecast a small improvement in trend from the 8.6% fall in 2017 to -5.3% in 2018 and -5.5% in 2019. CCTV and PSTV (provincial satellite) channel groups are the key reasons for the improvement, arising from TV program innovation, product optimization and better marketing. The World Cup in Russia will lead a strong performance for CCTV channel groups. The situation of provincial and local TV is deteriorating for want of top resources.

Continued urbanization, digitization and mass transportation create more opportunities to drive OOH advertising, for which we expect 9.3% and 9.0% growth in 2018 and 2019, respectively. With internet access and development of technologies including iBeacon, VR, AR and Wi-Fi, OOH has great potential to amplify its impact in the era of the Internet of Things and cross-screen integrated marketing. Advertisers appreciate the medium for its reach and salience in town and country alike. Internet companies use OOH to recruit a young audience, with "OOH+Social" proving a potent combination. Rising cinema admissions, exceeding RMB 10 billion for the first time in February, is another natural OOH accelerant.

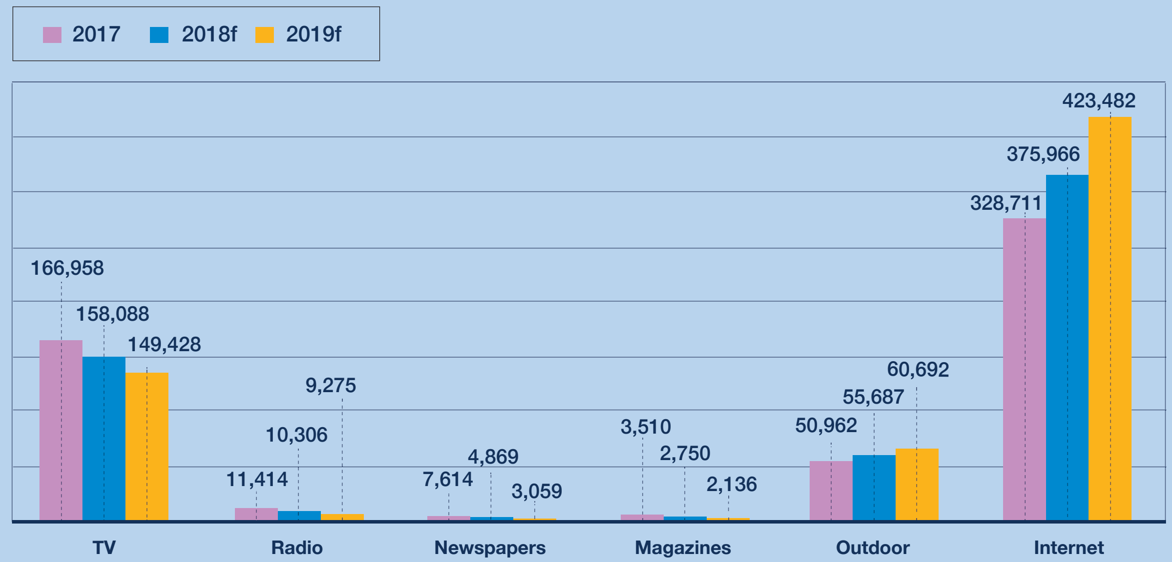
Spending on radio is expected to decline a following its recent assistance from rising penetration, particularly in-car. Withdrawal of tax incentives restricted car sales volume growth to a seven-year low of 1.4% in 2017, according to the China Association of Automobile Manufacturers. Therefore, our forecast on radio spending growth is -9.7% and -10.0% in 2018 and 2019, respectively.

Traditional print media still endure shrinkage despite new media integration and business expansion. We forecast newspaper advertising investment at -36.0% in 2018 and -37.2% in 2019, and for magazines, respectively, -21.7% and -22.3%.

2017 real GDP grew 6.9% according to the government, but using proxy indicators, UK analyst Capital Economics estimates the true rate to be about 5%, or about 6.5% nominal, which would correspond with our run-rate for advertising. Whatever the real figure may be, trends remain healthy, with growth persisting despite tighter credit controls, exports beating forecasts, inflation contained, and real consumer spending accelerating from 7% in 2017 to an expected 8% in 2018. Government consumption is trending down, offset by investment rising. Real wage growth is stable at between 7% and 8% annually.

China absorbs nearly 10% of global imports. Its trade surplus was 1.4% of GDP in 2017 and forecast 1.6% in 2018, half the rate of the Eurozone's. Both are in Trump's unfair-trading crosshairs, from which most observers infer trouble, but the object of reasonable sanctions is to reward reasonable behavior. In China's case, this might take the form of respecting IP, deregulating finance and service sectors and closing excess capacity in coal and steel – although China supplies only 1% of US steel imports.

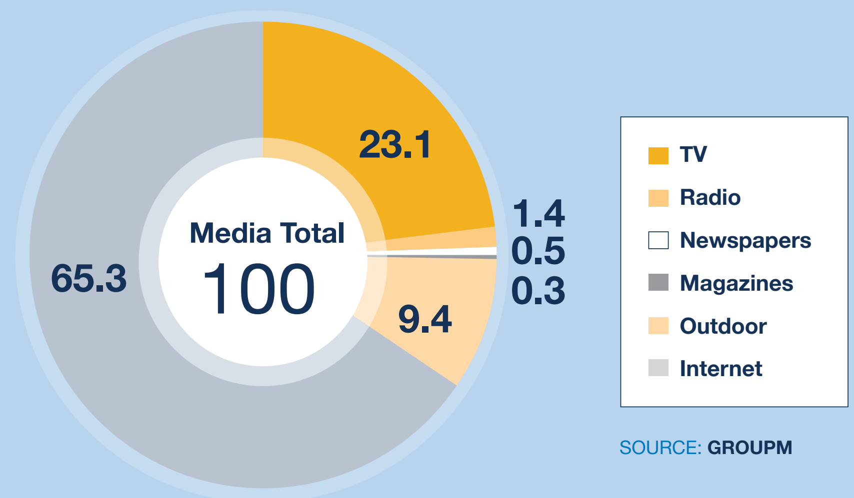
Media CNYmm



Media Total	CNY MM			USD MM		
	569,168MM	607,667MM	648,073MM	89,885MM	95,965MM	102,346MM

SOURCE: GROUPM

2019f % Shares of media

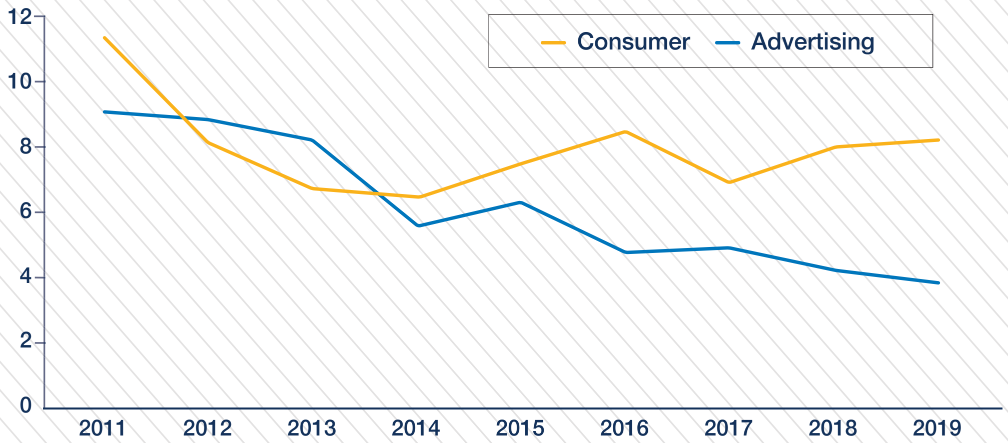


SOURCE: GROUPM

China

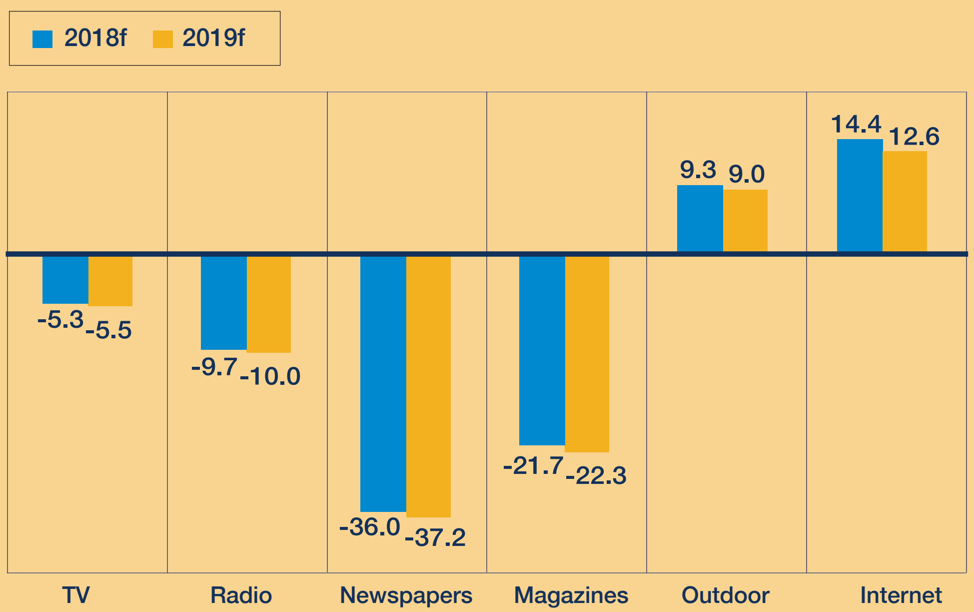
Consumer spending

YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

YOY% Change



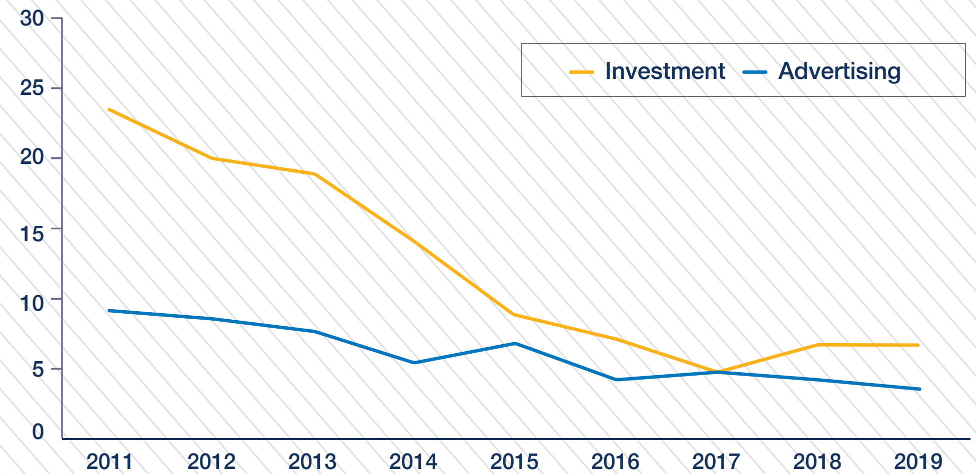
	2018f	2019f
Media Total YOY% change	6.8	6.6

SOURCE: **GROUPM**

China

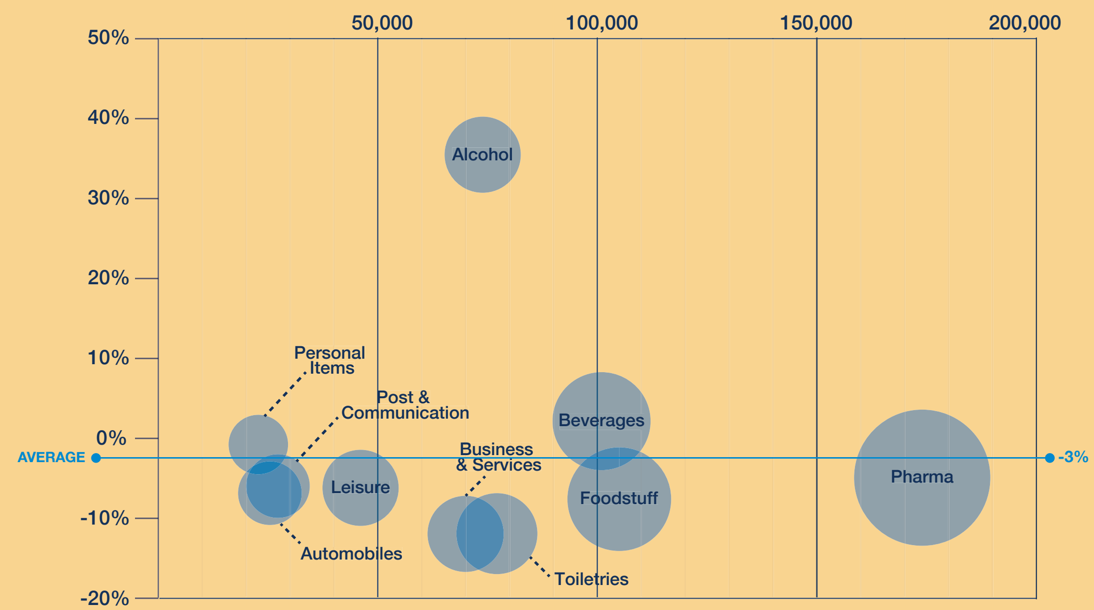
Investment

YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

2017 Categories YOY% Change and CNYbn



- Categories: CTR (TV and print only)
- Historic media revenue: TV, print, radio: CTR; internet: iResearch; OOH: Kinetic
- "China" here means the People's Republic of China and does not include Hong Kong or Macau
- Agency commission: out
- Discounts from rate card: after
- Newspaper classified: in
- Internet classified: in
- Production cost: out
- Internet is PC and mobile, and comprises search, e-commerce website, static display, video, rich media and others.

Germany

Video is a growing and important component of digital advertising. Six-second Outstream and Shortstream ads are highly effective, and being integrated within user-friendly content, they do not have to find space in allocated video ad space, which is scarce. Mobile is growing too, but it is hard to quantify in isolation because it is mixed up in multiscreen and cross-device campaigns.

Programmatic has surged in the last two years and is likely to keep growing. One challenge is, however, to minimize open market spend and maximize private deals. Social media continues to grow too, predominantly Facebook, but Google seems mature and search as a whole is actually declining a little.

Brand safety and viewability is a big topic. Display ad investment growth has fallen slightly as advertisers prioritize brand-safe and user-friendly environments. Another big topic is GDPR and ePrivacy. The biggest challenge will be bringing all parties around one table and finding a joint and congruent solution. Though convenient, to rely on integrating or collaborating with Google may produce unintended consequences.

TV still has the highest daily reach of adults 14+, of 81%, and remains the preferred medium for large audiences. However, slower growth and channel fragmentation fosters predatory competition between the TV stations.

Our biggest concern is loss of under-40s' reach: They are watching more video, but less TV. The TV publishers must therefore increase their digital video reach. Meanwhile, the supply problem is fueling 14–49 unit price inflation of around 10%. We predict absolute TV revenue growth of only 1% a year, however. There is welcome progress in audience measurement in the form of a new video panel to replace the TV one, with mobile included from 2018.

Addressable TV is growing, but constrained by siloes and a lack of common standards.

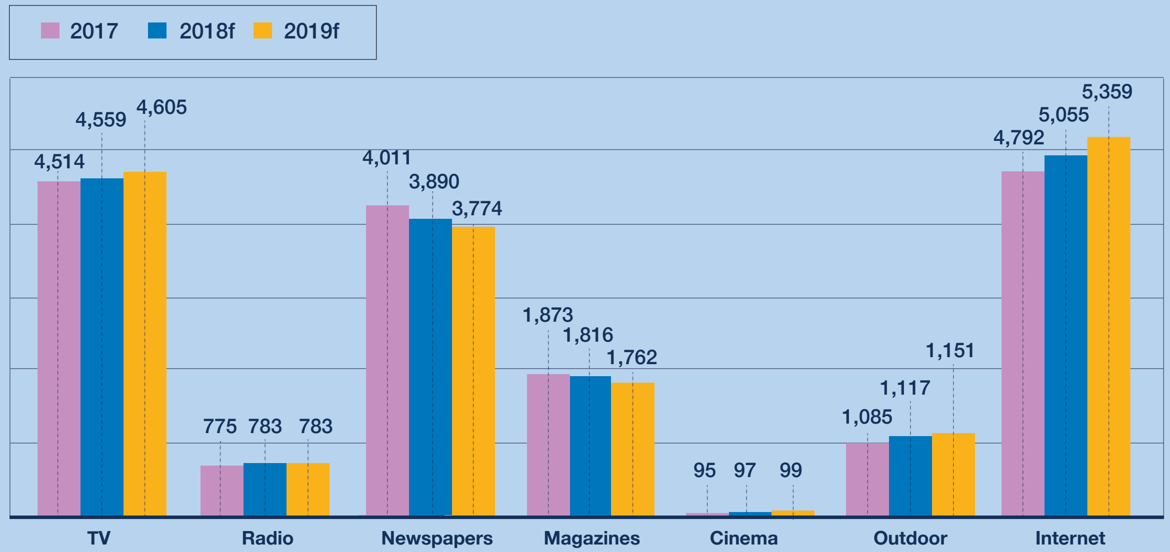
Magazine circulation and advertising is still pressurized, but three-quarters of circulation is still paid-for, much by subscription, which implies reader engagement and allows publishers to plan investment. There is a healthy pipeline of premium special interest launches. To have a clear position is to position for growth. Discussion continues about consolidation and cooperation in distribution, marketing and sales to keep the whole medium competitive. Newspapers' trajectory has improved: The medium remains highly relevant for most retailers and discounters. Score Media Group (publisher of several German dailies) is still essential as the key marketer for national and regional newspapers.

Digital audio advertising grows strongly above average, especially among the younger target group. An increase of 40% is predicted for 2018, propelling the subsector to about €49 million. Drivers include programmatic audio, high demand for podcasts, and the proliferation of devices such as smart speakers.

Germany's 2017 trade surplus was equivalent to 7.9% of GDP, by far the largest proportion of any major economy. There seems little domestic political pressure to change this, but external pressure may emerge in 2018 in the shape of President Trump. The main advantage to Germany of the status quo is high employment, but its keen savers keep spending growth stuck around the feeble Eurozone average. The economy grew 2.5% in real terms in 2017 (3.8% nominal), the fastest since 2011, but retail sales fell in six of the eight months to April 2018. Negative real interest rates have, however, made themselves felt in overheated property prices, up 50% since 2008 (compared to 15% in the US and 16% in the UK).

The economy cannot grow much faster, and anecdotal evidence suggests 2018 may be a little slower, with employers having difficulty finding staff. Even if wages are forced up by shortages or the cost of housing, history gives little reason to suppose this will have much effect on Germany's spending and saving trajectories. The composition of Chancellor Merkel's hard-won coalition seems likely to reinforce these austere characteristics.

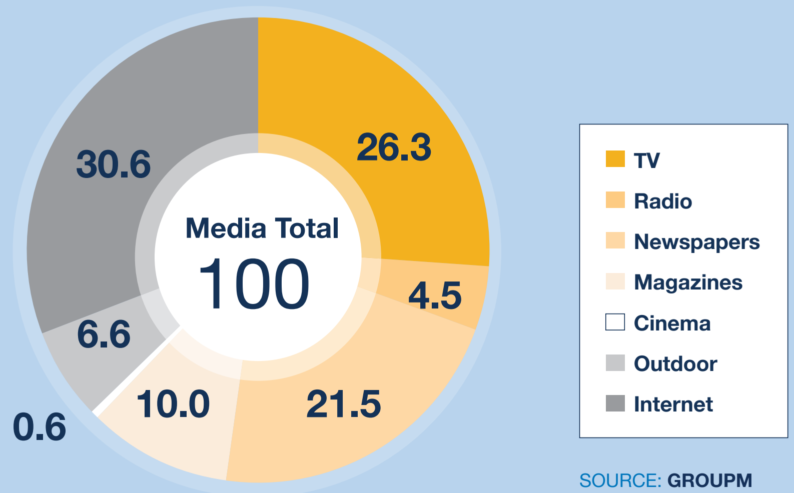
Media EURmm



	EUR MM			USD MM		
Media Total	17,145MM	17,318MM	17,532MM	20,796MM	21,007MM	21,266MM

SOURCE: GROUPM

2019f % Shares of media

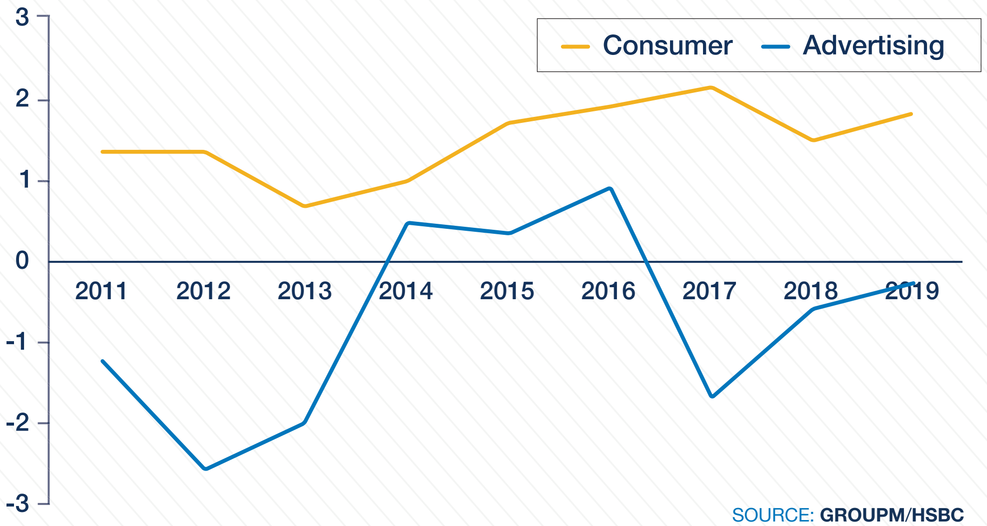


SOURCE: GROUPM

Germany

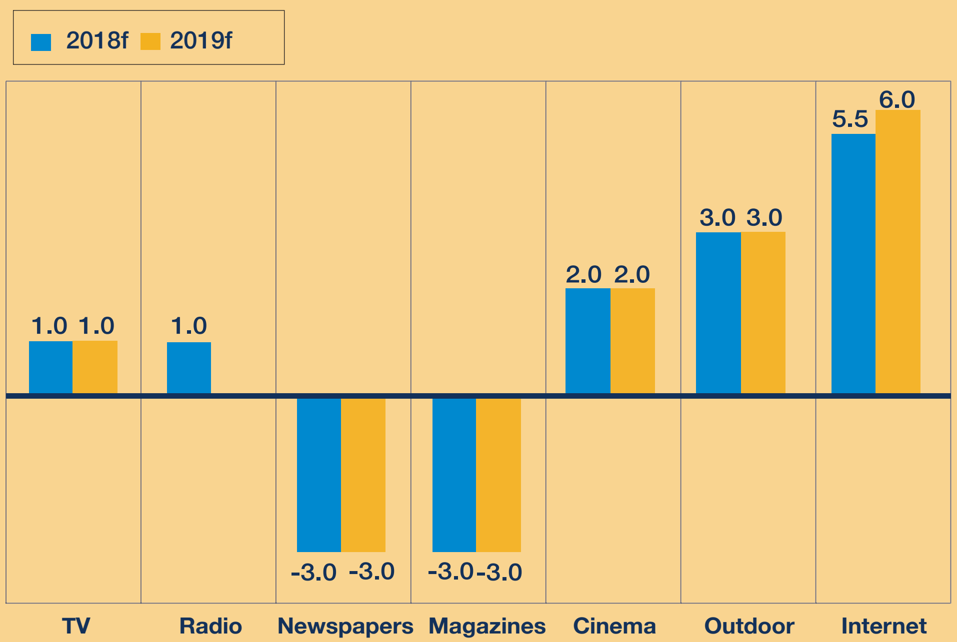
Consumer spending

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

YOY% Change



Media Total YOY% change	1.0	1.2

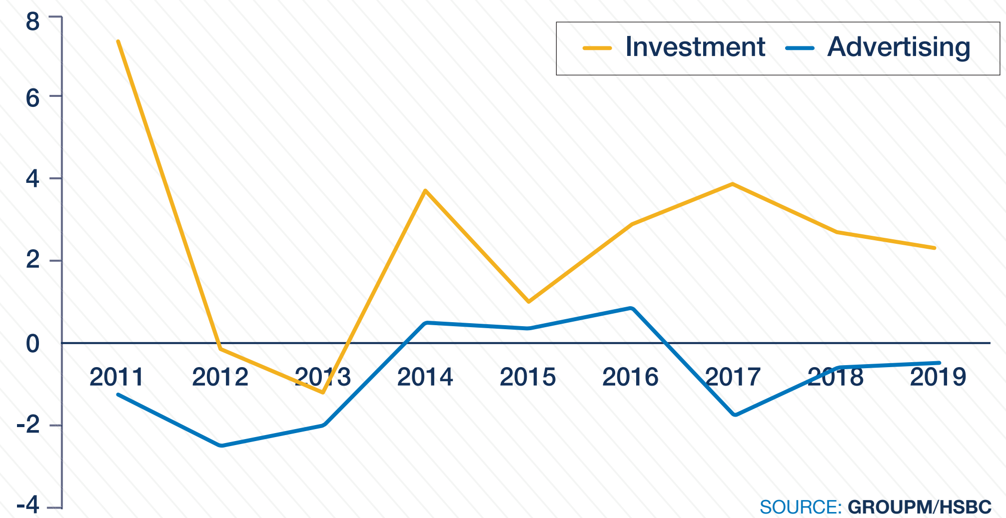
SOURCE: GROUPM

THIS YEAR NEXT YEAR

Germany

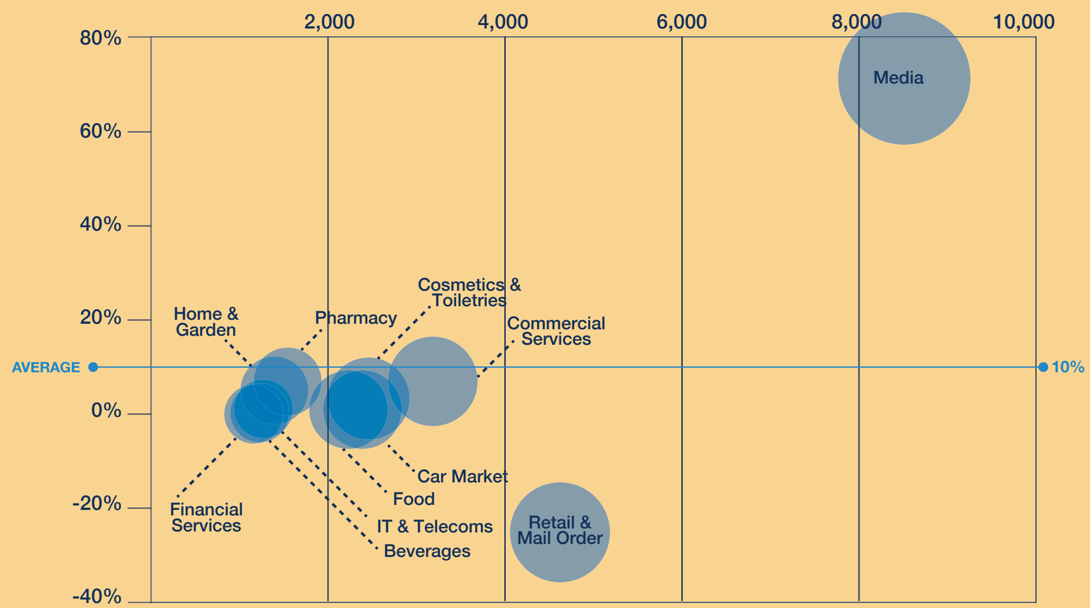
Investment

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

2017 Categories YOY% Change and EURmm



- Categories: Nielsen, gross
- Historic media revenue: ZAW (except internet)
- Historic internet revenue from 2004: OVK (Online Marketing Circle) (gross, but discounted by GroupM)
- Newspapers include advertising journals, weekly and Sunday newspapers, and supplement
- Magazines include B2B but exclude directories
- Agency commission: out
- Discounts from rate card: after
- Newspaper classified: in
- Internet classified: out

India

India is expected to grow 7.4%–7.5% in 2019, driven mainly by services and private consumption; manufacturing will see modest growth and agriculture, nominal growth. Bank balance-sheet repairs and 2017's sales tax reforms will truly start yielding results at some point in 2019, accelerating a reviving investment cycle. Identifiable downside risks might include protectionism, sanctions or geopolitics causing price inflation in primary resources.

Auto advertising growth is expected to be high as car, scooter, luxury bike and commercial vehicle segments will see good sales growth in 2019, driven by urban demand and infrastructure investment. Rural demand for motorcycles will be monsoon-dependent.

Banking, financial services and insurance ad investment will grow in tune with retail lending, the spread of insurance and banking, and demand for formal modes of investment. Digital payments are expected to reach USD 500 billion by 2020 and to overtake cash transactions by 2023.

Consumer durables ad monies will see average to high growth. Stimulants include low penetration in consumer appliances, shorter replacement cycles in consumer electronics, robust replacement demand in general, and unexpected/extreme weather — hotter summers and hazier winters.

E-commerce advertising will grow fast as the market matures: Morgan Stanley predicts the market to touch USD 200 billion by 2026 and about half of India's internet users to mature by 2019/20 (five years or more of internet use). Online shoppers are expected to increase from the current 14% of internet users to 50% by 2026.

Retail will sail smoothly: Strong consumer expenditure growth, slated at 12 %–14% year over year between 2017–2020, and the explosion of modern retail, expected to nearly double in size between 2016–19, will drive ad monies.

FMCG ad spends will be modest given the prospect of higher raw material costs affecting margins, yet key drivers will remain strong: deeper rural penetration, rural demand supported by increased welfare spending in an election year, steady urban sales and growing interest in luxury and health-wellness products.

Services ad growth will be strong as major segments travel and hospitality, health care and logistics are all expected to perform well in 2019, the travel market to touch USD 40 billion by 2020, and logistics to benefit substantially from GST.

Telecom ad growth will be driven by mobile handsets — 2017 saw 288 million handset shipments (of which 124 million were smartphones). International Data Corp. expects 2018–20 to bring mid-teens growth rates. Advertising may, however, be constrained by intense competition weighing on margins throughout this period.

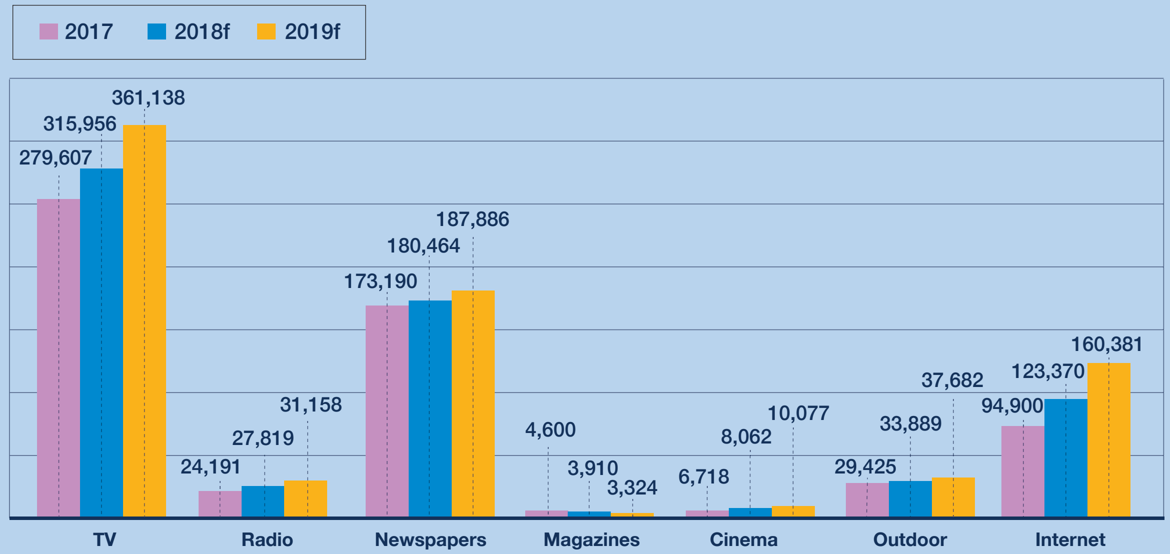
For TV, sports and elections will drive advertising. Print will grow at a slower rate, losing share to digital; election spending will provide some relief. Radio is expected to do well, driven by local-focused categories retail, services and e-commerce. Cinema and outdoor will see good growth as technology adoption increases make them more ad-friendly. Digital will continue to see high double-digit growth backed by video (with OTT players/AVOD gaining traction) and other premium inventory.

The IMF forecasts GDP growth of 7.4% real, 11.5% nominal for 2018, suggesting a return to trend after the disruption of GST and demonetization. Real investment growth tumbled from 10% in 2016 to 6% in 2017, however, and is forecast to remain at this inadequate level as banks repair their balance sheets over the next two years. Exports have also been a little impaired by the new tax regime, which has drained working capital and created a new bureaucracy for related reliefs.

Wage growth figures are not available, but it has been sufficient to help sustain consumer spending growth at above 7% annually in real terms. Consumer credit has also surged. Rising prices for oil and other imports could push inflation above the central bank target of 4% this year, but so far has not prompted calls to raise the 6% base rate.

Balance sheets will eventually be repaired, and reforms will yield efficiency benefits, which fuels optimism about growth beyond 2019. However, deeper economic reform of labour, land and state ownership must form part of any future of universal prosperity.

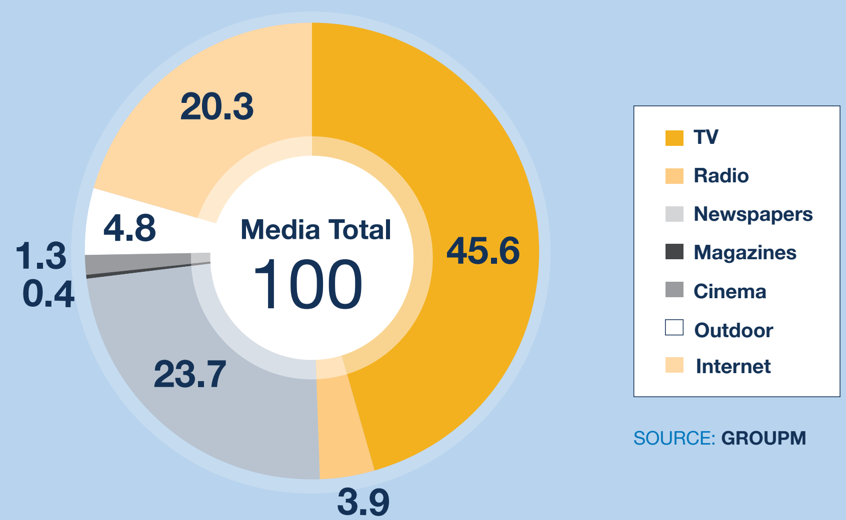
Media INRmm



Media Total	INR MM			USD MM		
	612,630MM	693,469MM	791,645MM	9,190MM	10,403MM	11,876MM

SOURCE: GROUPM

2019f % Shares of media

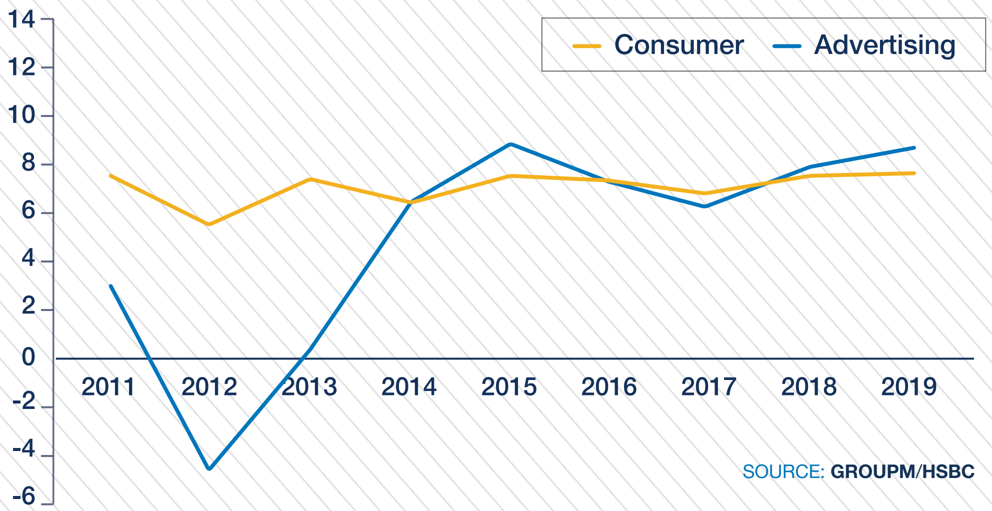


SOURCE: GROUPM

India

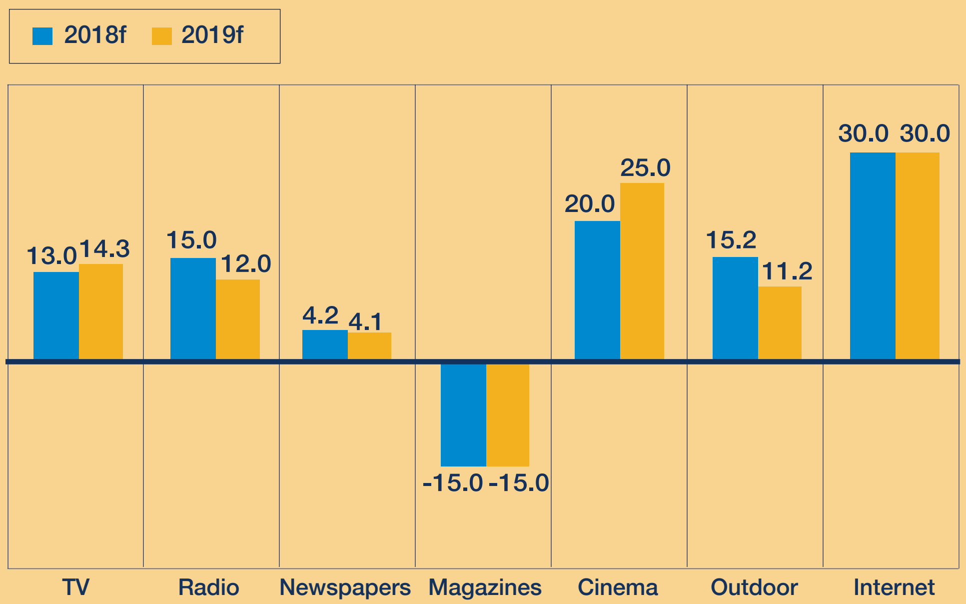
Consumer spending

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

YOY% Change



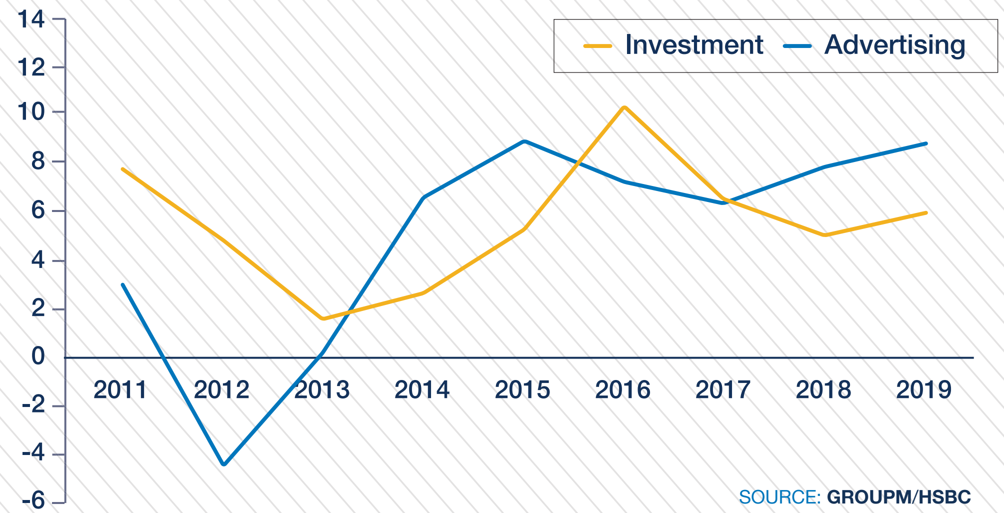
Media Total YOY% change 13.2 14.2

SOURCE: GROUPM

India

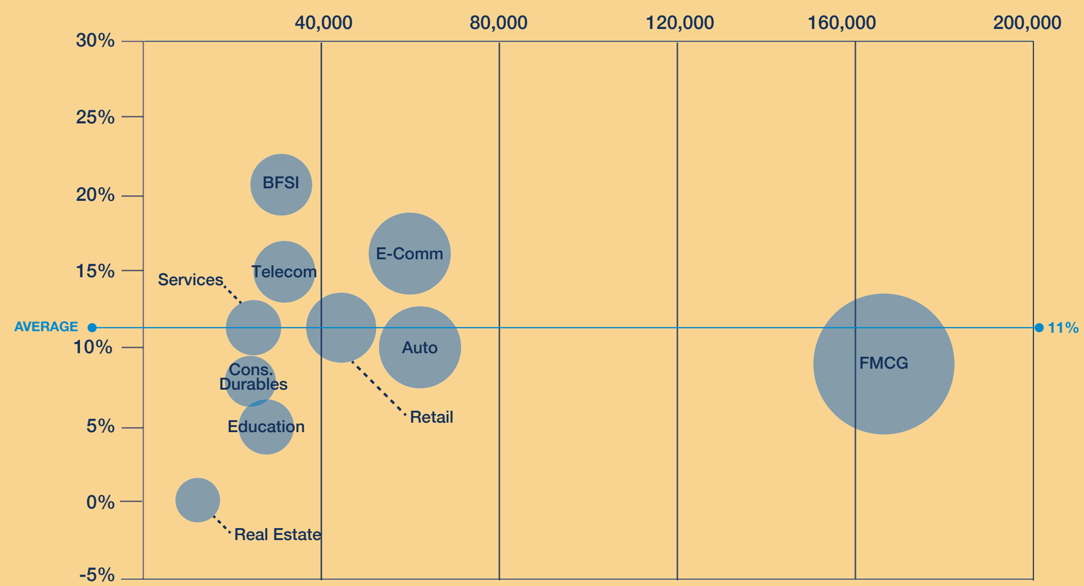
Investment

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

2017 Categories YOY% Change and INRmm



- Top categories data: TAM AdEx and GroupM
- Top advertisers: TV, print, radio only
- Historic media revenue: ORG-MAP; internet, GroupM
- Print is display only (classified is not measured)
- Excludes 15% agency commission
- Internet comprises search, display, video and social; excludes small advertisers

Russia

In 2017 the Russian media market showed substantial growth of nearly 15%, driven by strong demand in all digital segments, and TV, which still commands 40% of media advertising appropriations.

In 2018 the trend for market growth is likely to remain in double digits from additional demand across all media segments due to presidential election campaigning in the first half, and the FIFA World Cup, hosted by Russia, in the second half.

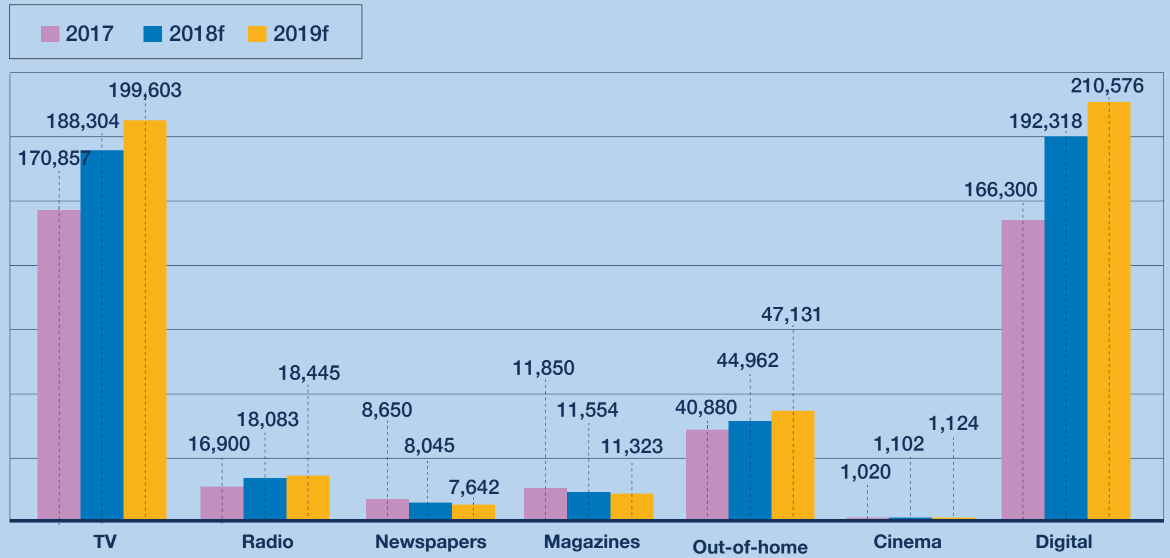
The wider economy is supportive to the extent of the stabilization of the ruble exchange rate, consumer inflation halving in 2016 and halving again in 2017 to under 4%, and the prospect of stable growth in nominal GDP of around 6% annually. The automotive market showed 22% period-on-period unit sales growth in the first quarter, supported by stabilization of consumer income, which also provided a comfortable business environment for FMCG, retail and finance.

A firmer oil price would normally help the economy, but we are mindful of downside risks to our 11.5% growth projection for 2018, which include geopolitical uncertainties, the effect of new sanctions, and currency risk. Advertiser demand will be concentrated in video media (TV + online video, often abbreviated to OLV) and in programmatic buying of performance formats ("cost per...," or CPX).

Predicting 2019 is made more hazardous by tough international relationships, though one certainty is it will be a hard comp. We think diplomatic progress could support 7% advertising growth, but we will have to revise this down in the event of any further material damage to consumer income and the domestic economy.

Fiscal discipline has put Russia in line for a balanced budget in 2018, and on the cautious assumption of $40 oil. At the time of writing, Brent Crude was trading at $77 with a 52-week low of $44. With GDP this year expected to be the same as in 2014, what Russia needs now is growth. Oil and tax provide at least some headroom for state spending, and wage growth is picking up, but these are not enough. Consumer spending is still too small a proportion of the economy, and private investment growth is among the lowest in the world. Fixing this will involve reform, liberalization and avoiding economic sanctions, which may lie beyond the capacity of Russia's politics.

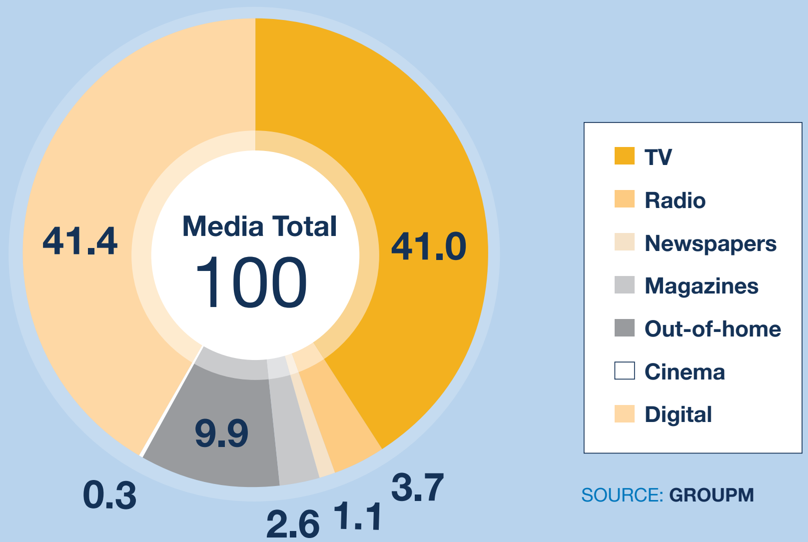
Media RUBmm



Media Total	RUB MM			USD MM		
	416,457MM	464,367MM	495,844MM	6,700MM	7,471MM	7,977MM

SOURCE: GROUPM

2019f % Shares of media

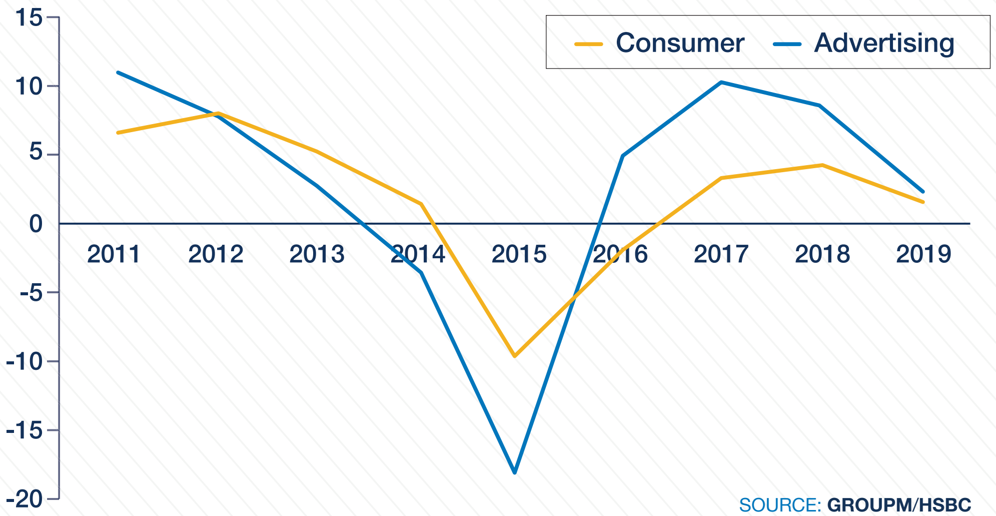


SOURCE: GROUPM

Russia

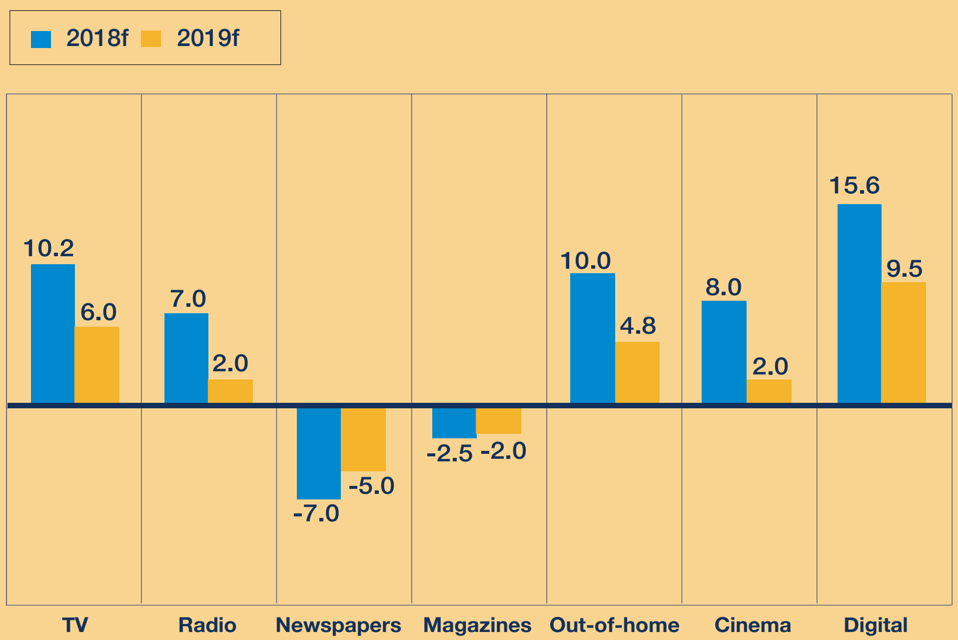
Consumer spending

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

YOY% Change



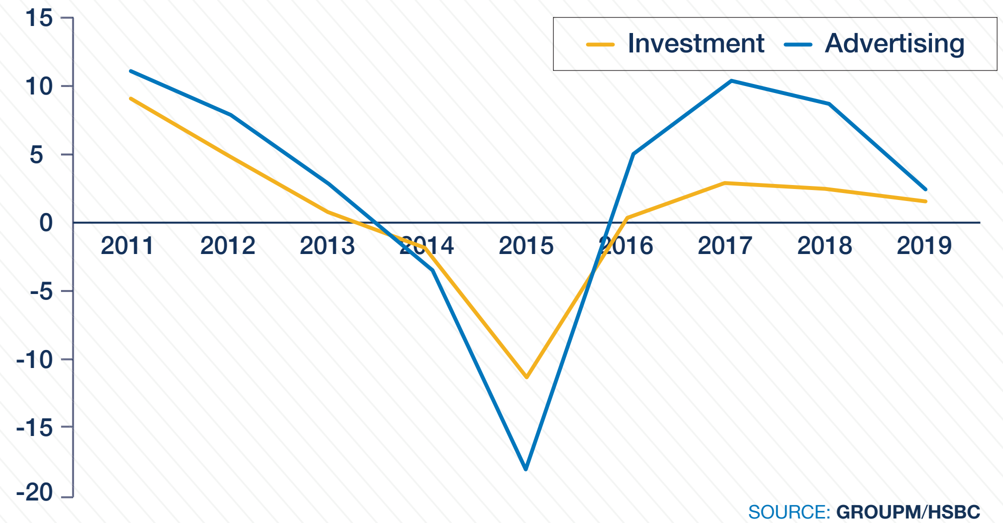
Media Total YOY% change 11.5 6.8

SOURCE: GROUPM

Russia

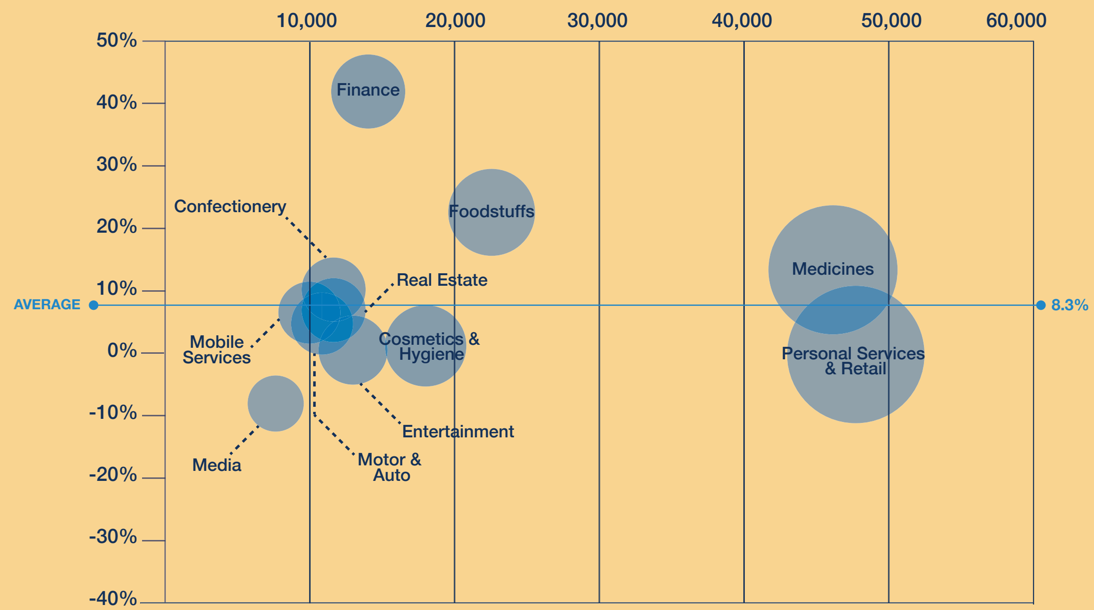
Investment

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

2017 Categories YOY% Change and RUBmm



- Top categories: estimated net of discounts and tax, based on Gallup TNS gross
- Historic media revenue: AKAR/RARA
- Agency commission: out
- Discounts from rate card: after
- Newspaper classified: out
- VAT 18%: in
- "Internet display" comprises classic display, video and mobile (all types excluding paid search)

United Kingdom

2017 media investment growth of 6.4% may prove a peak: These new forecasts envisage 6.1% for 2018 and 5.1% for 2019. Pure-play internet growth accelerated from 12% in 2016 to 15% in 2017, though much of this arose from the IAB/PwC retrospectively revising 2016 down by £193 million. There is, however, no denying digital's impetus in 2016 and 2017, as advertisers large and small changed up a gear with Facebook.

It is easy to justify using more digital in advertising: lots of data, lots of reach, easy to use, and cheap. All true, but no element is exempt from challenge. In particular, the rising tide of data encourages short-termism and specialization: knowing more and more about less and less. There is a risk these become diseconomies. Automation, including AI, must increase to liberate human brains for strategy. We need more technology but fewer technicians.

The distinction between digital and other media is now meaningless. According to the Advertising Association, in 2017, digital accounted for 23% of news brands' advertising revenue. We see this rising to 31% in 2018, assisted by the recent arrival of cross-device, reach-revealing PAMCo, which we believe has the potential to amplify the benefits and versatility of the editorial media concerned. We think this will sustain the emerging improvement in news media's advertising trajectory. This, plus digital drivers in categories such as radio/audio and out-of-home, contributes to our picture of aggregate advertising investment to "traditional" media stabilizing this year and next, after the Facebook surge of 2016 and 2017.

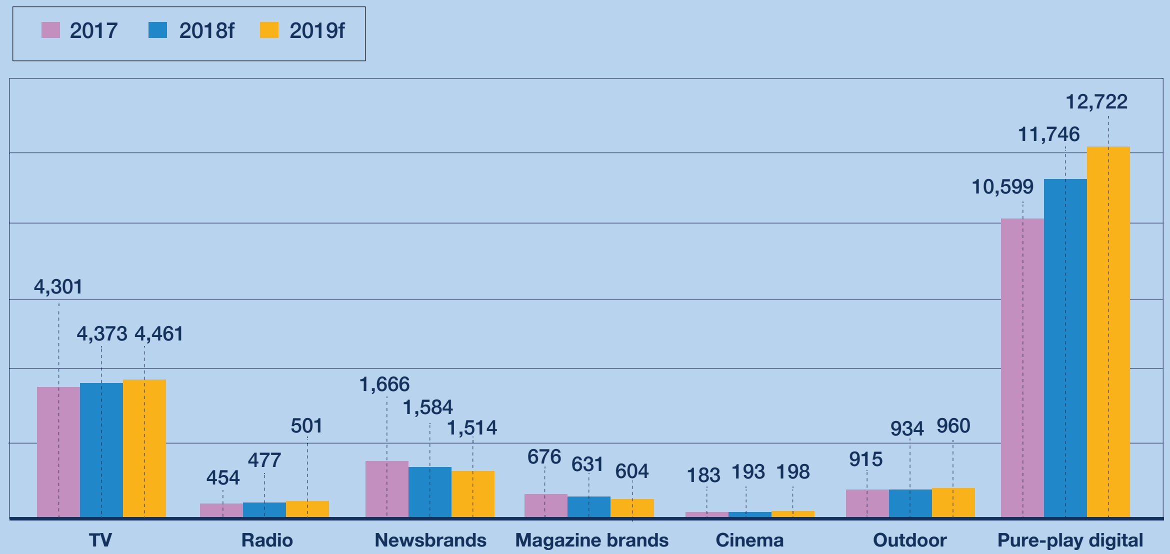
In our forecast, "pure-play internet" is still gaining share, however, rising in 2019 to 60% of what we project will be an advertising economy surpassing £20 billion for the first time. The IAB goes to the trouble of estimating components such as mobile, social and video. We would welcome its estimated subdivisions of large and small advertisers and of the market excluding Google and Facebook. The IAB's headline growth rate is the largest moving part in the measured advertising economy, but it is becoming progressively less informative to smaller publishers and larger advertisers.

We produced this forecast on the eve of GDPR's arrival in May. Much of its effect and interpretation will take time to emerge. More informed consent and a cleaner supply chain are undoubted benefits, as we discuss in *GDPR: Inspiring Consumer Best Practices Beyond the EU*. One way to ensure consumers love your brand is to support it properly. However, the financial sector sends warnings of unintended consequences of regulation in the form of heavy automation expense in the cause of compliance rather than productivity, and of compliance forming a barrier to entry, and therefore a barrier to competition and innovation.

In its April forecast, the IMF fractionally upgraded its UK growth forecast for 2018, but other signals remain contradictory: car and retail sales falling at the fastest rates for years, while productivity, inward investment and corporate confidence improve. Each monthly review of the bank base rate seems like a toss of the coin. Unemployment is at a 43-year low and workforce participation is at a record high, but it is headline news when wage growth exceeds that of consumer prices. Fuelled by global recovery, the strongest source of new demand is currently exports, which grew three times the rate of GDP in 2017, but evidently at risk of Brexit and protectionist disruption. The prospect of 1.6% real/3.3% nominal GDP growth in 2018 is already unimpressive given the health of external demand.

Regarding Brexit, fissiparous UK politics remains incapable of furnishing even a minimum purpose and leadership consistent with the national interest. This seems bound to return to weigh on business and consumer confidence, possibly coinciding with pressure on profits should wage demands escalate unexpectedly.

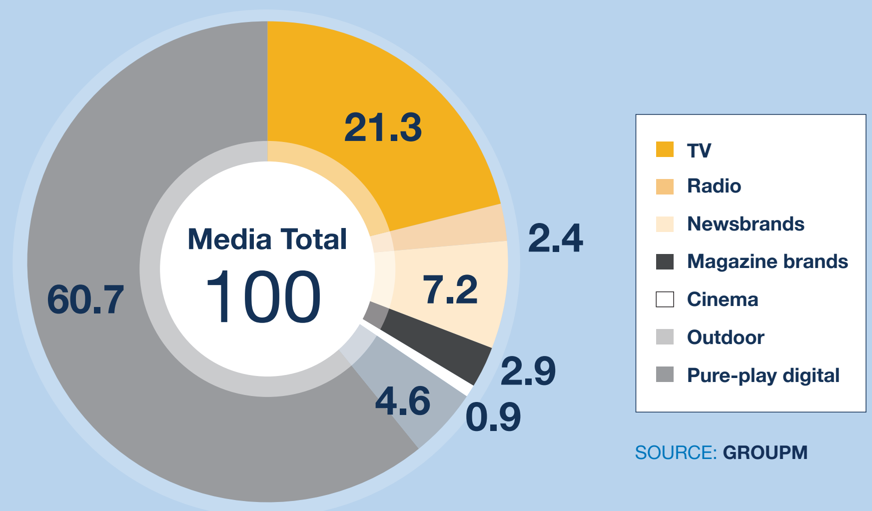
Media GBPmm



Media Total	GBP MM			USD MM		
	18,795MM	19,937MM	20,960MM	25,902MM	27,477MM	28,887MM

SOURCE: GROUPM

2019f % Shares of media



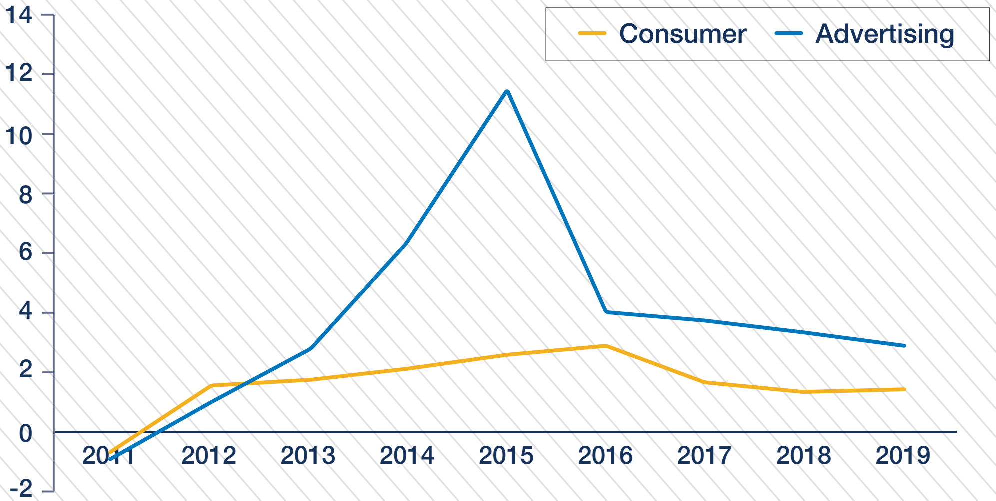
SOURCE: GROUPM

United Kingdom

United Kingdom

Consumer spending

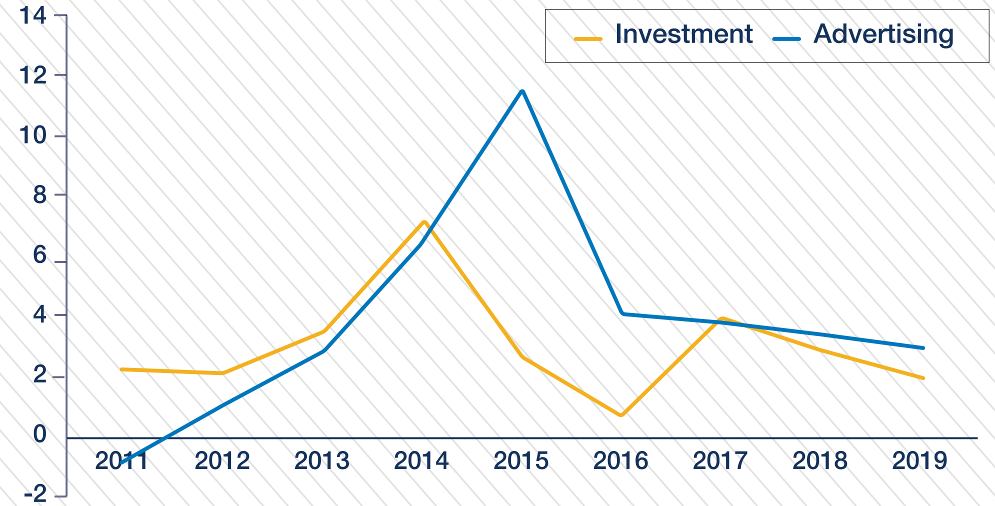
YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

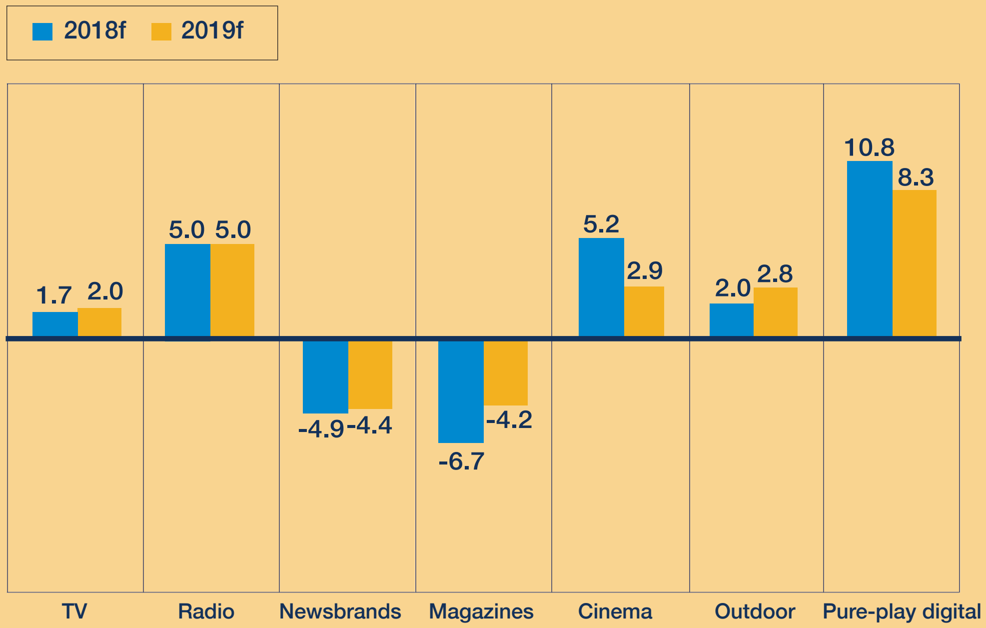
Investment

YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

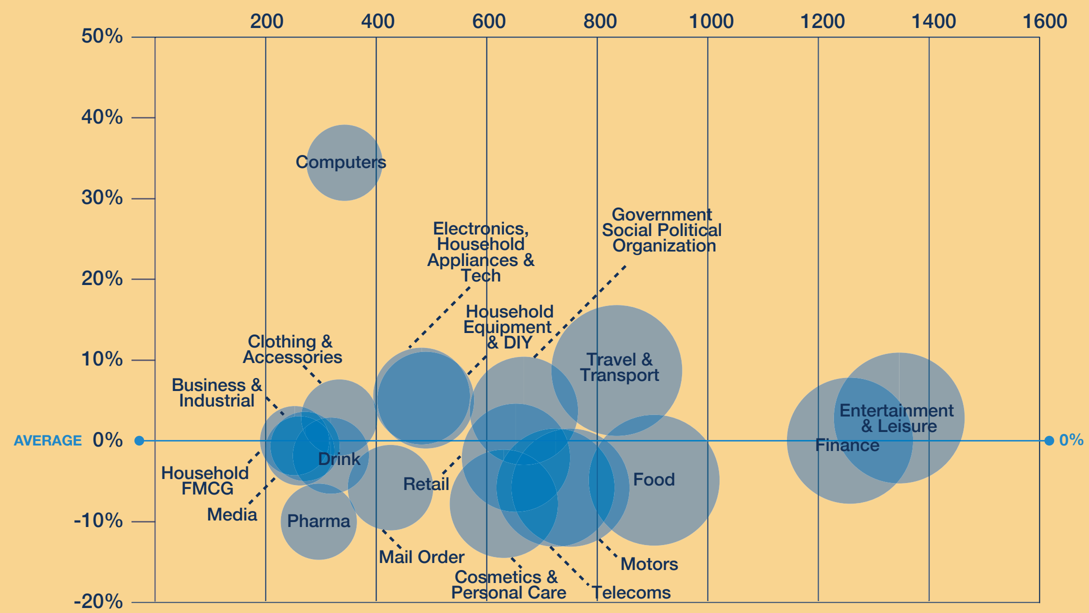
YOY% Change



Media Total YOY% change	6.1	5.1

SOURCE: **GROUPM**

2017 Categories YOY% Change and GBPmm



- Historic media: AA, IAB/PwC, GroupM
- Production costs: out, except for cinema
- Agency commission: out
- Discounts from rate card: after
- Newspaper classified: in
- Categories: Nielsen
- "Digital" comprises all forms of advertising on all connected devices
- In April 2017 the IAB retrospectively increased 2015 digital ad investment by £481m
- "Pure play" means digital revenue accruing to legacy newsbrands, magazine brands and TV broadcasters is removed from the "digital" line

United States

We forecast 2018 total market growth at 3.7%, continuing to lag expected nominal GDP growth of 5.3% to reflect the continued pricing and top line growth challenges faced by sectors of the US economy.

While good news regarding key economic indicators like home sales and unemployment have increased US consumer confidence, the rise in energy prices and low unemployment have many concerned about increased inflation.

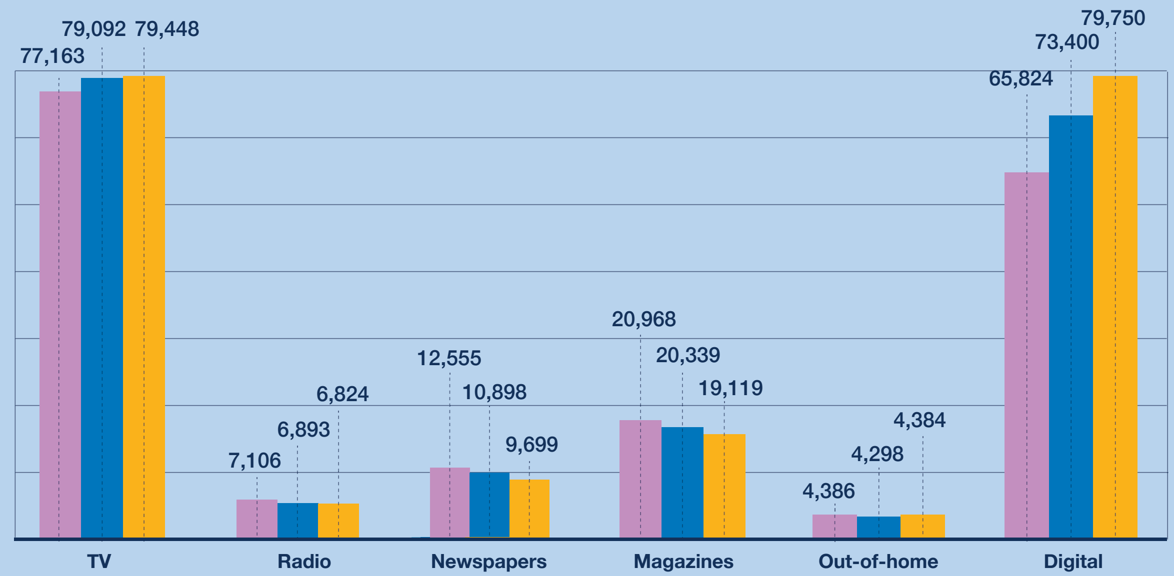
Marketers continue to study their investments in traditional media, and have increased their scrutiny of all phases of digital, with a continued emphasis on verification and value.

The implementation of the EU's GDPR (General Data Protection Regulation) has caused several US digital publishers to revise their data sharing and targeting policies, which may put a slight drag on the spending increases in this area.

Confidence surveys of CEOs and consumers hit multi-year highs in the first quarter following the Trump administration's tax cuts and deregulation measures. Real GDP is expected to grow 2.9% in 2018 (5.3% nominal), up from 2.3% in 2017, and sustain something close to this in 2019 before stimulus wears off and tighter money wears on from 2020.

Real wage growth of 2.7% is forecast for 2018 and 2019, the highest since Lehman, and accompanying a 17-year low in unemployment. Slack in the labor market remains hard to assess, with the participation rate rising but still three points short of 2000's 82% peak. Another unknown is at what point debt service will become a headwind to growth, with public and private debt up 51 points to 327% of GDP since Lehman, and the annual budget deficit now on the path to 5% or more. The IMF estimates 20% of US companies will struggle even with moderate tightening. Those with the headroom to invest will be encouraged by the tax and relief changes, making it more likely 2018 will sustain 2017's 4% rate of real growth in investment, up from 1% in 2016.

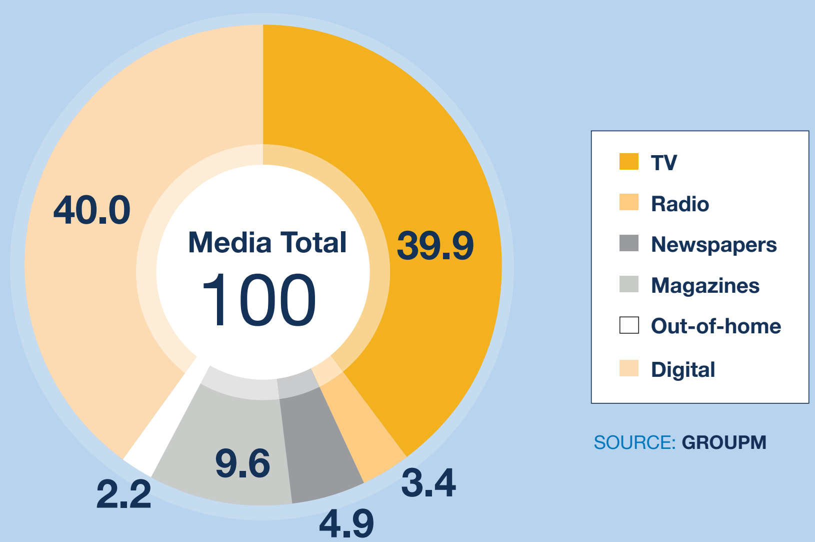
Media USDmm



Media Total	USD MM		
	188,002MM	194,920MM	199,223MM

SOURCE: GROUPM

2019f % Shares of media

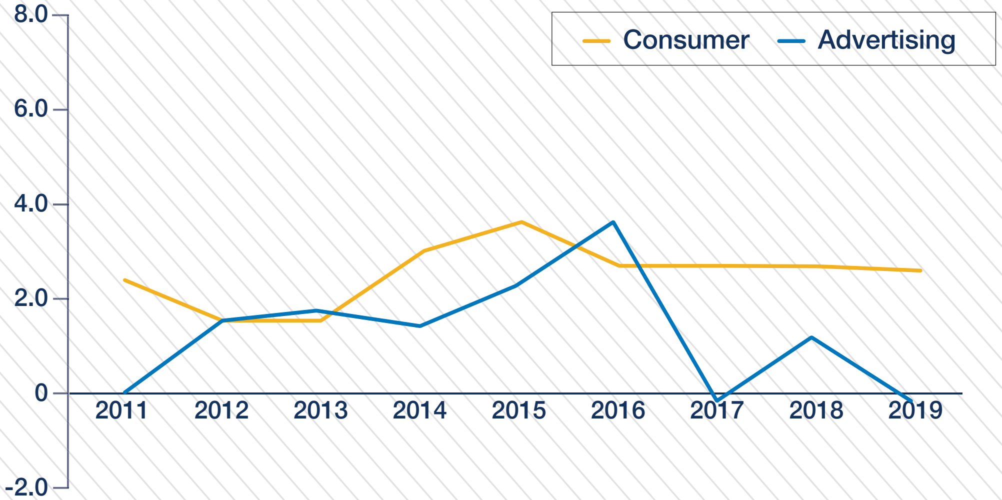


SOURCE: GROUPM

United States

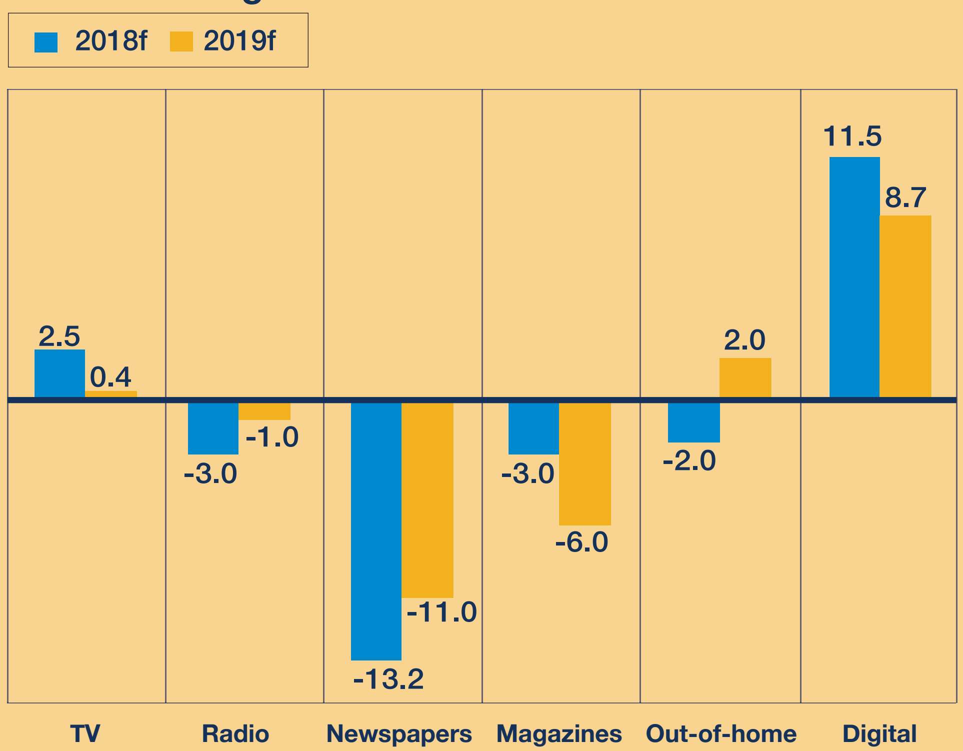
Consumer spending

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

YOY% Change



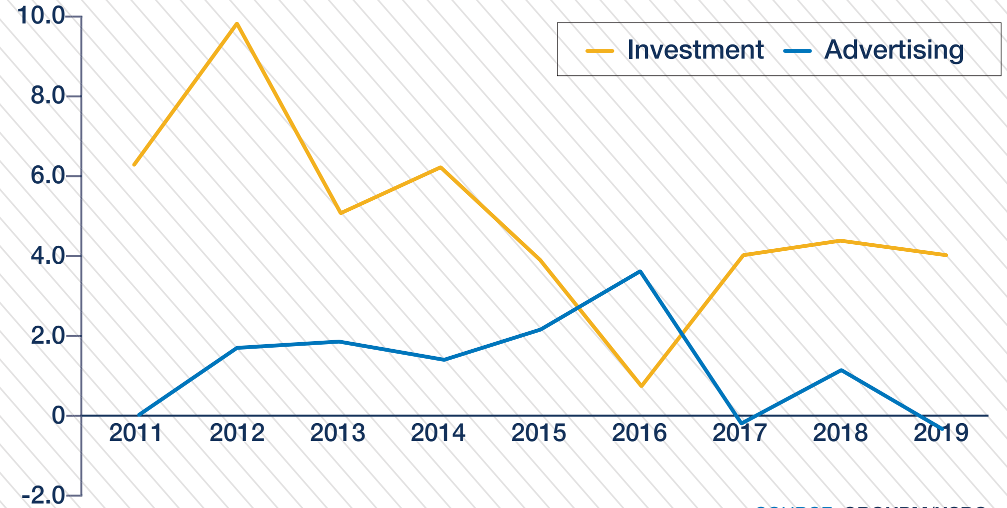
Media Total YOY% change 3.7 2.2

SOURCE: GROUPM

United States

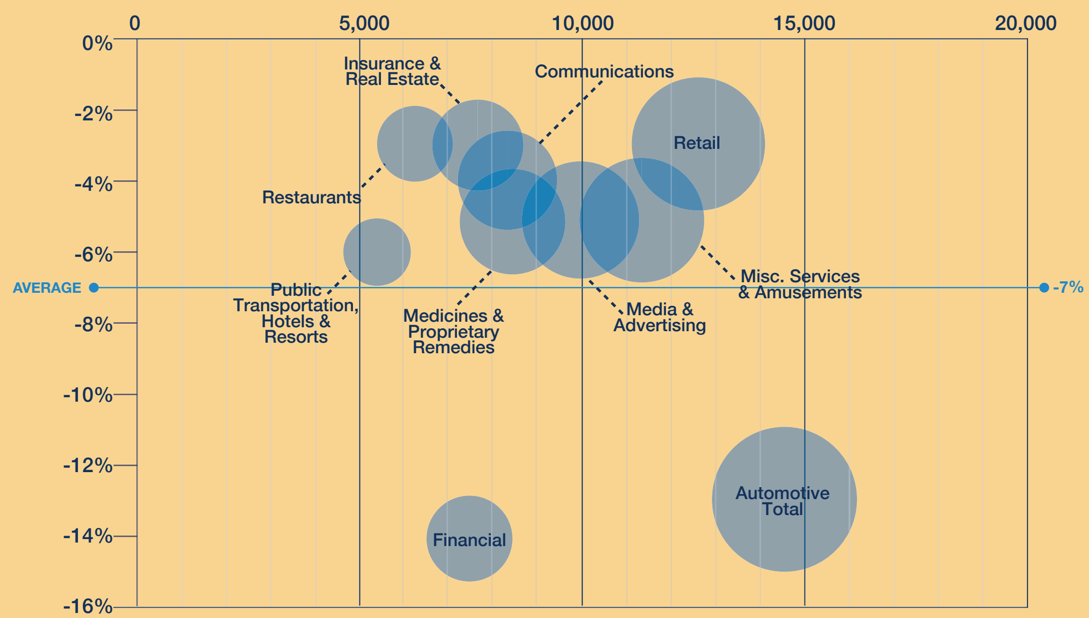
Investment

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

2017 Categories YOY% Change and USDmm



- Categories: Kantar
- Historic media revenue: Kantar, GroupM
- Agency commission: out
- Discounts from rate card: before
- Newspaper classified: in
- Internet classified: out

GroupM is the leading global media investment management company for WPP's media agencies including Mindshare, MediaCom, Wavemaker, Essence and m/SIX, and the outcomes-driven programmatic audience company, Xaxis. Responsible for more than US $108B in annual media investment by some of the world's largest advertisers, GroupM agencies deliver an advantage to clients with unrivaled insights into media marketplaces and consumer audiences. GroupM enables its agencies and clients with trading expertise, data, technology and an array of specialty services including addressable TV, content and sports. GroupM works closely with WPP's data investment management group, Kantar. GroupM delivers unrivaled marketplace advantage to its clients, stakeholders and people. Discover more about GroupM at www.groupm.com.

For further information about this report, please contact adam.smith@groupm.com

GroupM
498 7th Avenue
New York, NY 10018
U.S.

A WPP Company